The Empire Club of Canada

Founded 1903

Addresses 1987-1988

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The Empire Club of Canada

1987-1988
84th Year

HER MAJESTY, QUEEN ELIZABETH II
HIS ROYAL HIGHNESS, PRINCE PHILIP,
DUKE OF EDINBURGH
on the occasion of their 40th wedding anniversary.

The Empire Club Of Canada

Founded 1903

Addresses 1987-1988

GOD SAVE THE QUEEN

Presidents pass into Empire Club history fondly reflecting and smiling on the second or third page of their yearbook. That smile, indeed that office, would not have been possible without the unstinting devotion to The Club of its directors and officers.

This yearbook records the gratitude of this president —and of many before him—to the 25-year veterans of the Board of Directors: Clarence B. Crummey, Marvin Gelber, Charles C. Hoffman, Ernest M. Howse and James A. Parish.

Personally, I could not have done it without them!

Ronald Goodall
President

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The Empire Club of Canada

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1954-1955	James H. Joyce
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†1957-1958	Lt.-Col. W.H. Montague, O.B.E.
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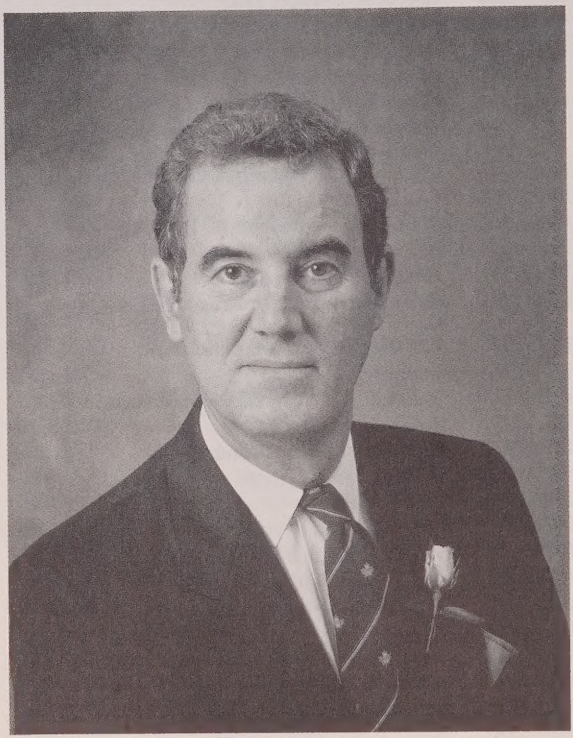

RONALD GOODALL
President, 1987-1988

The Empire Club of Canada

PRESIDENT'S FOREWORD

Since that November day in 1903, when a small meeting was held in Webb's Restaurant, Toronto, effecting the organization of The Empire Club of Canada, 85 presidents have had the privilege of leading The Club and 85 yearbooks have been produced. Today in this electronic age, the little red book can claim to be unique not only because it is perhaps the only surviving permanent up-to-date record of a club's history but also because it is distributed at no charge from coast to coast in Canada and abroad. A distribution I should point out that is sponsored and managed by The Empire Club Foundation and financed by many members and organizations.

Here then are the thoughts and words of present and potential political leaders in Canada, leading Canadian, British and American businessmen, the architects, historians and diplomats from abroad, the bankers, free-traders, teachers, lawyers, athletes, economists, all televised across the country and many reported upon in the next day's press.

As I look back upon my presidential year and complete this yearbook, I am reminded of Hilaire Belloc's thoughts:

> When I am dead, I hope it may be said
> His sins were scarlet, but his books were
> read.

Ronald Goodall
President 1987-88.

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The Hon. Michael Wilson, P.C., M.P.

Minister of Finance

TAX REFORM

June 24, 1987

At a joint meeting of The Empire Club of Canada
and The Canadian Club of Toronto

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Sonja Sinclair

Tax reform has been with us for less than a week—and already so much has been said and written about it that a visitor from outer space might assume there isn't anything left to be said.

But then visitors from outer space wouldn't know about our insatiable appetite—some people might say masochistic appetite—for news about tax changes, and their impact on our pocketbooks.

Besides, there's nothing like getting your information from a primary source. And so, after listening to all the experts who have spent the last six days telling us how wonderful—or how awful—it's going to be, some 1,400 of us have come to hear from the man who masterminded tax reform, and who unveiled it last Thursday before the House of Commons.

We have been fortunate to have the Minister of Finance as our guest speaker earlier this year, following the tabling of his budget, so I don't propose to take up your time or his with a detailed account of his many accomplishments. I would like, however, to dwell for a moment on one item in his biography which seems to me particularly significant.

Eight years ago, when Mr. Wilson first decided to run for Parliament, he was executive vice-president of one of Canada's largest investment firms. I admit I am guessing, but I'd be prepared to bet that his friends and associates told him he was out of his mind to abandon, at age 42 and as the father of three young children, to abandon such a distinguished career in the world of business—for the uncertain and often unrewarding life of a politician.

The fact that he went ahead anyway says a great deal about the man's integrity, about his sense of obligation to his country and his conviction that, if you want good government, you'd better be prepared to do something more than complain.

Mr. Wilson has served Canada as Minister of State for International Trade in the government of Joe Clark, then as Opposition spokesman for Industry, Trade and Commerce and, for the past three years, as Minister of Finance. He is a member of several cabinet committees, including the influential planning and priorities committee. Last, but by no means least, he is a past director of The Canadian Club of Toronto.

Ladies and gentlemen, please welcome the Hon. Michael Wilson, Minister of Finance in the Government of Canada.

Michael Wilson

As you all know, last Thursday I unveiled the Government's tax reform proposals. Since that time, there has been considerable analysis about who will pay what and when.

Those are obviously important questions to every individual and firm in this country. But there's another question that is equally important to all of us as citizens. It's the question why. Why tax reform? And why this particular tax reform package?

To properly answer that question, let me describe how I see our country and the shortcomings in our current tax system.

As we all know, our small population and large territory have traditionally meant that Canadians face a higher tax burden than our American neighbours. It is only common sense that it costs more per individual to erect a national infrastructure in a country with one-tenth the population. And higher taxes also reflect the fact that we often pool our resources through the state to achieve economies of scale in commercial ventures and social services. This difference between American and Canadian tax burdens, however, is often overstated, since we forget that Americans pay higher payroll taxes than we do and we enjoy lower after-tax costs for health care and university education.

A second reality is that we are a country built on the free flow of goods, services and capital. We are also a young country with large capital requirements. That means we must not only ensure our tax system supports our export trade; we must ensure that Canada remains an attractive place to invest. And that means maintaining competitive corporate and personal tax rates.

Combine these two realities and one reaches a third conclusion. We need a third source of revenue to fund government programs if corporate and personal tax rates are to remain competitive.

For 60 years, that third source of revenue has been a federal manufacturers' sales tax. But that tax is antiquated and badly flawed. It is narrowly based; it is biased in favour of imports at the expense of Canadian producers; it is complex with high compliance costs; it has a widely different effect on prices; it increases the cost of investment, and it places a hidden charge on our exports amounting to about 10 per cent of the profit margin on foreign sales.

A fourth reality—we are an open economy, with a small domestic market and many export-oriented industries. That means we must not only encourage national savings so we can finance national development; we must ensure that the cost of investment remains low. In other words, our economic policies must be balanced. They must emphasize supply—not just demand; production—not just consumption.

A fifth reality—we live in a volatile world. And that means our system must maximize the freedom of individuals and firms to adapt to change, and the ability of governments to react to change in a timely and effective way.

Our current system falls short of providing such flexibility because individuals and firms often can't make the right business moves based on the pursuit of profits rather than tax incentives. The system is so riddled with special deductions and incentives that the link between profits, taxable income and tax rates has been severed.

Sixth, while our resource industries will always play a central role in our economy, we must also build and develop new industries. But some of our most heavily taxed companies, those in the service and trade sectors, are those with the greatest growth potential.

Finally, a seventh and uniquely Canadian reality—the federal and regional nature of our own country. Economically, we face the challenge of regional disparity. And politically, we are a decentralized country with the provinces being responsible, for example, for health, education, welfare and natural resource policies. Provinces take a much larger share of direct and indirect taxes than do the U.S. states.

Complex formulas have been devised to allocate tax powers and revenues and to ensure balanced national growth. And that means different tax changes impact differently on federal and provincial revenues—a major consideration which we have taken into account in shaping our tax reform package.

Those are some of the basic realities which have shaped the tax reform package—realities which point out our need for a personal income tax system that is not only fair to low-income Canadians, but one which ensures fairness among individuals in similar economic circumstances; the need for a corporate tax system that is not only internationally competitive, but one which promotes fair competition between sectors of the Canadian economy; the need for a sales tax that is not only socially fair, but one which promotes economic growth and jobs; the need for a tax system that not only encourages savings, but one which creates the right balance between production and consumption; the need for a tax system that not only provides greater freedom to individuals and firms to meet the challenge of change, but one which increases government's ability to manage change responsibly; the need for a tax system that not only supports our resource industries, but investment in new technologies and sectors with the greatest growth potential; and the need for a system that not only promotes national unity, but one which reflects our regional diversity.

I believe that the reform package creates a new system that meets these fundamental requirements. Personal income tax reform will result in 850,000 low-income Canadians being relieved of federal income tax. Eight out of 10 households will enjoy tax reductions averaging nearly $500. People earning similar incomes will begin to carry more similar tax burdens. The self-employed and investors will still pay less than employees. That's fair, given the risks they run and the jobs they create. But the gap will be narrowed—a change which will help our companies keep their best employees and ease the burden on the wage and salary earners at all levels. Those are all results which will promote both social progress and economic renewal.

In the corporate sector, rates will be reduced to internationally competitive levels. The broader base will mean the tax burden is shared more evenly across the economy. Furthermore, success will depend more on the skills of researchers, marketers and production specialists. And with more profitable corporations once again paying tax, the balance between personal and corporate tax revenues will be restored; and the link between making profits and paying taxes will be reinforced.

There are those who say we should have gone further—that what is needed is a corporate minimum tax. It's the kind of easy answer we have heard before—easy, simple and wrong. Because what they are really saying is that we should tax companies regardless of circumstances, for example, showing a profit after years of heavy losses. This could affect our hard-hit forestry, mining and steel companies, and farm corporations. Whether they know it or not, they are saying we should tax those companies with significant negative impact on their ability to continue. I believe the reform proposals to broaden the tax base are a more straightforward way of getting to the root of the problem in a fair way.

Finally, sales tax reform. The government proposals for sales tax reform will address all of the flaws of the current system. Sales tax reform will lessen the burden carried by our manufacturers. It will encourage exports and investment. It will create a system that is reliable and modern—one that is both fair and effective.

Tax reform changes, both in stage one and stage two, will result in a significant improvement in the fairness of the tax system.

Let me emphasize this. The new sales tax will be fairer for low- and middle-income Canadians. It will be accompanied by important changes in the personal income tax system. The most important of these will be to substantially increase the refundable sales tax credit introduced by the government in 1986 and to extend this credit to many more Canadians.

The new sales tax credit will be paid regularly and in advance. The level of the credit and the income threshold for eligibility will be established to more than offset the impact of the new sales tax on low-income Canadians. In addition to the credit, when the new sales tax is introduced, the personal and corporate income surtaxes will be removed and there will be further income tax cuts for middle-income taxpayers. These measures will make the combined personal income and sales tax systems, after tax reform, even more progressive than they are now. In particular, our senior citizens and lower-income Canadians, who benefit from the changes brought about in stage one, will also benefit from the changes in stage two.

As you know, sales tax reform is an integral part of the total package. We are committed to implementing a multistage tax. We are considering three variations. One is a national sales tax, to replace both the federal manufacturers' sales tax *and* provincial retail sales taxes. Two are federal-only options.

Any one of the three alternatives is better than our current system.

If we are able to combine the 10 separate federal and provincial sales taxes into a single national sales tax, that would also mean a significant simplification of the tax system. Simplification is of particular importance to the small business community that has limited time and resources to seek professional help to properly comply with the law. They would then be able to devote more of their resources to productive business activities. The government would also pay small businesses a collection fee to compensate them in part for the costs of compliance.

Sales tax reform, by improving the competitive position of domestic manufacturers, would result in more investment and job creation in Canada. The overall gain in economic activity as a result of sales tax reform could amount to as much as 1.5 per cent of GDP, or about $8 billion in today's dollars. To put it differently, the current tax system is costing us $8 billion annually in foregone production opportunities. The new job creation will benefit all Canadians in general, and lower- and middle-income Canadians in particular.

As I stated last Thursday, we will be consulting with both provincial governments and interested Canadians on the best sales tax mechanism. These consultations are *not* about the amount of revenue which will be raised. Stage one of tax reform is fiscally balanced. It is designed neither to increase nor decrease federal revenues overall. Stage two will be equally balanced.

What remains to be decided is whether the new system will be a joint federal-provincial system or a federal-only system. And we must decide on the appropriate base of the tax, the tax rate and the size and scope of the refundable sales tax credit. Thursday, I described some of the issues at play and the relationship between these three variables. Simply put, the broader the base, the lower the tax rate and the bigger the credit. There are no easy answers to these questions.

I am inviting all of you to think about the issues and join the debate. What we are trying to do is create the best possible sales tax system for Canada—one that not only looks fair but *is* fair to both consumers and producers alike; one that will allow us to finance many of our key government programs, such as equalization, medicare, post-secondary education and all the other institutions which define us as Canadians, but in a way that promotes competitiveness, economic growth and job creation.

Unlike the changes to the personal and corporate income tax, sales tax reform will be delayed. The reason is no mystery. Changes to the personal and corporate income tax are changes within the existing system and can be made more easily. But sales tax reform is a fundamental change. We will be replacing one system with a totally new one. And that requires adequate time—for consultation with the provinces and interested Canadians; and to make Canadians familiar with the proposed new system and ensure a smooth transition to it.

In the meantime, there is an economy to manage. That is why I have chosen to change aspects of the current sales tax system, raise revenues to bridge the financial gap during the period when some of the income tax base-broadening measures are phased in, and improve our cash management. To do otherwise would not only threaten the progress we have made in creating jobs, raising the after-tax incomes of Canadians and keeping interest rates down—it could wipe out the benefits of tax reform if investor confidence was lost and interest rates were forced upwards. Such a short-sighted approach would truly make tax reform a meaningless exercise, with tax cuts merely going to pay higher mortgage or car payments. We have come a long way since 1984. Despite all that has happened in the global economy, we remain on course. And I am determined to keep it that way.

So that is tax reform—Canadian-style. It is a package that seeks to balance diverse interests and achieve an effective result. It is socially progressive. It raises sufficient revenue to fund vital national services shared by all of us. And it directs more resources to those most in need. But it is also conservative. It gives the people of Canada more control over their own lives. It reflects our belief in the individual—a belief that the people of Canada know best how to spend and save their money.

The proposals are rooted in reality—not theory; in ideas that are familiar—not foreign; in the art of the possible—not the science of the perfect.

Yes, there will be those who will say we've gone too far. I expect that. And there will be those who say we have not gone far enough. I expect that too. But these proposals reject both extremes. They reflect our belief that the two real opponents of progress are those who want to change nothing, and those who want to change everything.

I believe that we have struck the right balance. A package that meets our social and economic needs. A proposal that I hope you will see as fair for all Canadians. And right for Canada.

Ronald Goodall

I find myself in a bit of a quandary today. Some would argue that the taxpayer should never thank the tax collector. Others would argue that by being a C.A., I face a conflict of interest in thanking a minister whose reforms should create income for my practice. However, I believe I stand here today as the President of a not-for-profit organization whose tax status I shall not reveal for fear of further reform.

I do not think any of us would argue that tax reform is not necessary. Your approach to tax reform, which included consultation with the private sector and early assessment of the impact of reform, was laudable. Indeed, remembering a recent attempt at tax reform, you were quite courageous, Mr. Minister, to try reform once again.

There is, of course, the other side of the equation: the expenditure of taxes collected. May I ask you, Sir, to encourage your fellow ministers to follow your example and try to reform such expenditure. Perhaps the time has come to reverse the trend of trying to satisfy the never-ending, so-called rights of the individual by encouraging the individual to accept his or her private duty and public responsibility. I believe Mr. Blenkarn may have some ideas on this topic.

On behalf of the Canadian and Empire clubs, we thank you indeed for your presentation today and wish you success in your ongoing discussion and debate on tax reform, which reminds me of the comment in 1882 by Sir Stafford Northcote: "Argue as you please, you are nowhere; that grand old man, the Prime Minister, insists on the other thing." Hopefully history will not repeat itself.

Thank you.

Mike Filey

Author, historian, broadcaster

DOMINION OF CANADA DAY LUNCHEON

June 25, 1987

At a joint meeting of The Empire Club of Canada
and The Royal Commonwealth Society

Co-Chairmen: Catherine Charlton, Vice-Chairman
The Royal Commonwealth Society;
Ronald Goodall, President
The Empire Club of Canada

Ronald Goodall

Our two clubs have established a tradition of celebrating Canada's birthday. Some of us have feted Canada every July since birth although Victoria Day seems to have been the traditional evening of fireworks. Some of us have feted St. Jean Baptiste; some of us have learned to celebrate July 1. Together we mark Canada's 120th birthday, Canada — a land of beauty, a land rich in its people and in its abundance of life's necessities, a land of opportunity.

The poet Standish O'Grady in the early 19th century thought the country cold:

> Old Nick took a fancy, as many men tell,
> To come for a winter to live in Sorel.
> Yet the snow fell so deep as he came in his sleigh,
> That his fingers and toes were frost-nipt on the way.
>
> So he put back his sleigh, for he thought it amiss,
> His clime to compare to a climate like this;
> And now 'tis resolved that this frightful new-comer,
> Will winter in hell and be here in the summer.

Winter seems to have been a favorite topic for Canadian poets! But, as I learned, the summer can be very hot, the spring runoff refreshingly cool and the fall pleasantly warmed by Indian summer.

There is one special place in Canada, Toronto. Here our ambitions have been fulfilled; our loves have been matched and our homes made.

To tell us more about Toronto, our meeting place, we are indeed fortunate to have Mike Filey with us today—a Torontonian born and bred and, like us all, proud of it.

We have come to know Mike over the years as an author, historian and broadcaster documenting and promoting our city. The Toronto press called Mike a "fanatic" in 1970 for his obsession with Toronto. He has been referred to also as a "usually shy chemist," a "boyish-looking redhead" and our "Mr. Yesterday."

Mike's career spans chemistry with the Ontario government, public relations with the Canadian National Exhibition and Canada's Wonderland and, currently, freelance author. Mike is justly proud of his receipt of Toronto's civic award of merit for his work on Toronto's 150th anniversary celebration.

Mike Filey

First, I'd like to assure you that unlike yesterday's guest speaker, Michael Wilson, I am not here today to try and get any more money out of your pockets or purses. However, if you would like to buy my new book, hot off the press, I will be selling them out of the trunk of my car after the meeting.

This being a special Canada Day meeting of The Empire Club and Royal Commonwealth Society, I'd like to chat with you for a few minutes about some of the interesting facets of our country's premier city. To do that, I've brought along some slides so I'm going to ask you to face the screen. You may notice as I go through that I don't treat history the way it was taught to me at public school, which was learn it or stay after school. I think history can be fun.

How many are Toronto born? Let me do it the other way. How many are not Toronto born, but wish they were? Yes, look at them! I always like to do that before I start talking about the history of the city. Sometimes when I go out to some seniors groups there are people there that were there when these early maps were drawn. I have to be careful that I don't make up too much.

Anyway, I don't see anyone here old enough to remember when this map was done back in the 1600s. Although I haven't looked at everybody yet. This is one of the earliest maps of this general area, and what you see is a very early interpretation of Lac Ontario, or Lac du Frontenac, by the French. For some of you who may not know, one of my fascinations is why things are called what they are. Ontario is an Indian word for bright, shining water. In the old days it was bright, shining water. I'm not sure there's an Indian word for what you would call it today. But on the north shore of Lac Ontario you see a small clearing, which was called "Taiiagon" by the Mississauga Indians. Taiiagon was their way of talking about a place where they would gather to talk about hunting, or fishing, or the kinds of things they would want to know about. They would simply get together for a Taiiagon, or a meeting, and that is the word from which our present Toronto has come. There was also an Indian expression, very close to "Toronto," that meant trees standing in the water. That would represent the peninsula, or the island as it is today. There was also an Indian chief by the name of Doronto. Now maybe that's where the word Toronto came from.

We move up in time, to 1750, before anything really active happens in this area with the European settlers and the European military. Up to that time, the Mississauga Indians would traverse what we now call the Humber River (it was then called the Toronto Passage) coming down from the upper lakes, crossing Lake Ontario to trade with the British at a place called Fort au Swago. We now call it Oswego in New York State. The Indians would trade with the British. The French, who were in the country as well, didn't get along with the English in those days. The French were most upset that the Indians were bypassing them to trade with the English, so they built their own fort, which they originally called Fort Grie. It was located just to the west of the band shell at the exhibition grounds. Here you see it in its more accepted name, Fort Toronto. They simply grabbed onto the name by which the area was known and Fort Grie quickly became Fort Toronto. The year was 1750 and the French were able now to trade with the Indians travelling across the lake.

We all know about the Plains of Abraham in 1759. The French, realizing that they were about to lose some of their holdings in North America at that time, decided to set fire to Fort Toronto and in 1759 Fort Toronto disappears. That's really the end of European settlement in the area until the creation of what we originally called Upper Canada.

This is a rare view of what we had back in 1750 to 1759. There were nine fellows who worked with a boss; they looked after Fort Grie, and traded with the Indians. You may have noticed in the newspaper not too long ago that they have found the remains, or at least a portion of the remains, of the fort. When you go to the Exhibition this year, which I hope you all will do, go down towards the band shell and you will see stones laid out in the dimensions of the old French fort with quite an illustrative plaque. It's there to tell you that this was really the first European settlement in the Toronto area.

Now I mentioned the creation of Upper Canada in 1791. We needed a lieutenant-governor to look after the new province of Upper Canada. It was created because of the United Empire Loyalists streaming north from the States, wishing to reside under the care and protection of the King of England. So what was called "Canada" was split into Upper and Lower, Lower, of course, being Quebec and Upper becoming Ontario in 1867. John Graves Simcoe was selected to be our first lieutenant-governor. When he got here, he realized that the capital, which was supposed to be at a place called Newark or Niagara-on-the -Lake, wasn't a very clever move because just across the river were the Americans.

John Graves Simcoe had been captured by the Americans in the Revolutionary War, and knew that the Americans were going to attack his new capital and his new province. So he decided to move away. He was actually heading toward what we now call London, Ontario, on the Thames River. His boss, Lord Dorchester, said, "No you're not, you're going to make it Kingston." They set up what they called the Provisional Capital, a place called York. Now I say provisional because nobody really wanted it here, but you know, we'll put it here for a while and then we'll decide where in fact it will be. Well, as it turned out, of course, York became the full-time capital of the province of Upper Canada. It was one of those things that happened by chance, rather than planning.

This slide is one of the first sketches made of the new capital in 1803, looking along Front Street, in the vicinity of today's Jarvis Street. You can see how far inland the water came. In fact, next time you're travelling down Jarvis Street, or Front, or Bay, any of those streets, just south of Front as you dip on the roadway, or coming north, you rise up, and that is the shoreline of the old Toronto Bay. Everything south is fill.

This slide is an early map showing the layout of this community. Now, I should tell you that, while we were known as Toronto originally, the name York came about in a very strange and interesting political way. John Graves Simcoe realized that King George III and his family were the ones to patronize, because if you wanted your money to keep coming from England, you'd better look after the King. And so, he started naming the main thoroughfares after the King and his family. Thus, King Street for King George III.

Simcoe didn't like Indian words. Certainly Toronto was not a very pleasant word to his ears so he changed it to York. And the reason he changed it to York was that Frederick, the Duke of York, the second eldest son of King George III, had won a battle in Flanders over the French. That's all he needed. "I'm going to change the name to commemorate that particular fellow and make sure the money keeps coming from England." So, he changed the name from Toronto to York. We were fortunate because he could have changed it to "Freddie." This could have been the Town of Freddie. But instead, he decided to call it York, after his title name.

In this slide you see a very early sketch of what things looked like. Simcoe built a fort at the extreme west end of town that became Fort York. Across the way at Gibraltar Point, he built a blockhouse and by putting a cannon at the blockhouse, he guarded the entrance through the bay. You see there that the island is not an island, it's a peninsula. There is no way to get into the bay from the east end. So, Simcoe could protect that entrance, and he tucked his little town down in the crook of the bay.

That line that runs east-west under the sign York is a street that he called Lot Street, L-O-T. And he built 100-acre parcels of land, or park lots, running north from that, to entice the people at the old capital of Newark, or Niagara-on-the-Lake, to come over and start living in the new capital. Simcoe would give them 100-acre parcels of land.

This slide shows how our present harbour was created. Here, you see the new concrete head wall behind which they were pumping the mud from the bottom of Toronto Bay to give it a 27-foot depth so that ships could come in through the proposed seaway, which was still many years in the future. The structure you see in the very centre of this view, with the twin stacks, is the John Street Pumping Station. That's the pumping station that is presently being moved 300 feet to the south, to enable them to complete construction of SkyDome. Those two stacks you see will be, I think, the pitcher's mound of SkyDome.

The circular building, or semicircular building, to the right of centre, is the CPR roundhouse. That's the one that I hope becomes a transportation museum soon, where we can tell the story of transportation in Ontario. Looking down at the waterfront is the Harbour Commission Building.

Here we are over at Harbourfront; most of you perhaps have seen this slide. They are building minesweepers at the foot of Spadina. That's now the site of King's Landing. But there you see some of the 52 minesweepers that were built at the old Dufferin Ship Building Yard. Then you can see the Royal York being one of the major structures on the skyline, the other being the Bank of Commerce Building which today you can't see. It's there, but you can't see it.

This was quite a port at one time. Here in this slide you see some of the lake boats. The *Mayflower* being one of the island ferries, *Trillium* tucked into the left, the *Dalhousie, Macassa,* *Terbinia, Cayuga, Corona,* and so on, all of which operated out of Toronto Bay. Today that's all filled land.

Looking south, you see the *Dalhousie,* the *Cayuga* in the middle. One boat came in to Toronto in 1949 and caught fire one September night. The following morning, 119 people had burned to death. That was the *Noronic.* You can't take that picture today; Water Park Place is on that parking lot.

This slide shows the skyline of Toronto in 1920, the Queen City of the West... Union Station, Harbour Commission Building, the Clock Tower of Old City Hall, the skyscraper heart of the city, the corner of Yonge and King.

I was fortunate enough in 1984 to be given a phone call as the *Britannia* came into the bay. This slide shows *Britannia* entering Toronto Bay in our sesquicentennial year. I was appointed to the Sesquicentennial Committee because I was one of the few in the city who could say Sesquicentennial! The *Britannia* and the city skyline in 1984, the Toronto of today. Thank you.

The appreciation of the audience was expressed by Catherine Charlton, Vice-Chairman of The Royal Commonwealth Society and Past President of The Club.

John Elliott

Chairman and Chief Executive Officer
Elders IXL Ltd.

INVESTMENT ROUND THE WORLD — OPPORTUNITIES AND RISKS

August 31, 1987

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Sonja Sinclair

As many of you know, The Canadian Club season doesn't normally begin until late September — and the same goes for The Empire Club. But there's an exception to every rule; and when an opportunity arises to welcome to our podium a guest speaker who, within the past year or two, has emerged as a major-league player in the international business arena, a man whom *Fortune* magazine featured early this year as one of the world's 50 most fascinating business personalities — when you hear that such a person will be in Toronto for all of 36 hours — well, obviously, you nab him, whatever the date may be. Which is essentially why some 600 of us are here today.

I dare say that 15 years ago none of us knew, or would have cared to know, that a young management consultant with an M.B.A. from the University of Melbourne had scraped together enough money to buy an obscure jam manufacturing business in his native Australia.

Today, after a series of spectacular acquisitions, John Elliott heads a business empire that spans three continents and includes some of the best-known brewing companies in the world. Thanks largely to television commercials that feature Paul Hogan, the actor who played the lead in *Crocodile Dundee,* more Americans associate Australia with Foster beer than with koala bears or kangaroos. With the acquisition of Carling O'Keefe earlier this year, Elders IXL became the sixth-largest brewer in the world.

But beer is only one of the conglomerate's products. Elders IXL is also one of Australia's largest non-banking financial institutions that offers services in the United States, Europe and Southeast Asia. Another division sells Australian wool and wheat to customers from Kansas City to Moscow.

Elders' sales last year amounted to a hefty $7.3 billion, its profits to approximately $180 million.

All of which, it seems, is only the beginning. In a recent television interview, Mr. Elliott said that Elders plans to invest more than $3.5 billion in the next few years, mainly outside Australia.

But John Elliott's activities are not confined to business. He is a lifelong football fan, a former halfback on his high school team and, currently, president of the Carlton Football Club in Australia. He is also treasurer of the Liberal Party of Australia — which I understand is their conservative party — and he doesn't deny rumours that, some day, he may want to run for office and become Prime Minister. After all, he's only 45, so there's plenty of time.

But much though he enjoys talking about politics and football, his speech today will deal with business, possibly with political overtones. His topic is "Investment Round the World — Opportunities and Risks." It would be difficult to find anyone better qualified to deal with this subject than John Elliott, Chairman and Chief Executive Officer of Elders IXL.

John Elliott

Thank you, Madam President, for that overrated welcome. I think having a combined meeting of The Canadian Club and The Empire Club and standing here in front of so many people is quite awesome. In fact it reminds me of a story. And that is the definition of heaven and hell. Heaven is defined as a French cook, an English policeman, a German engineer, and Italian lover, and everything organized by the Swiss. The definition of hell is an English cook, German policeman, a French engineer, a Swiss lover, and everything organized by the Italians. I don't know whether I am here in heaven or hell at this minute.

What I wanted to do was just cover three subjects: the major issues I think that will impact on continuing prosperity around the world; the key factors for various countries to achieve growth and attract investment; and some observations from my limited experience on how good I think the opportunities are in different countries.

Let's start with the first one. Probably the most amazing factor that's dominated the world in the last couple of years has been the deregulation of the financial markets around the world, which has created a world liquidity situation. Deregulation, combined with the fact that our banking friends will no longer lend to Third World countries, has created a huge increase in liquidity to corporations and has allowed them to in fact decide where they are going to invest without the limitations of getting money to do it.

I regard three factors as very important today to whether or not we are going to continue to see the growth we've seen in the last few years. And it's not the debt problems of the underdeveloped or Third World countries; and it's not the growth opportunities they provide.

The first and most important is quite dull and boring for you people in Canada but it is the growth that will take place in the United States. It is still the "engine" of economic growth in the world. And there's no doubt that when President Reagan came into power, he restored in people a belief in themselves. And his deregulation attitude as concerned with free trade, etc., has sparked some strong economic growth in the United States which has filtered through the whole world.

The American nation, as we know, is a huge consumer economy and the consumption and the debt of consumers have risen considerably in the last few years. There are obvious difficulties in America, but what concerns me today is that when you look at the ratio of consumer debt to spending, it is now at the highest level it has been in the history of the United States. It is difficult in my view to see that growth being sustained at those levels. So my conclusion is there's probably going to be a slowing down in the United States, in terms of real growth. I'm not talking about the equity markets, which seem to run on independently of everyone.

The second important factor is the increasing protection going on around the world, particularly in agriculture, which affects my homeland as it does yours. The EEC is primarily responsible for the dreadful agricultural economic outlook we have, now being tackled by the United States. It's an amazing situation that by bringing all those countries together, creating probably the biggest market in the world, the EEC has decided in a political manner, mainly with the dominance of the French, that it would start subsidizing agriculture with huge sums of money and do it in a way that costs the consumer a fortune. It was not noticeable and the EEC didn't face elections. Now this subsidy system has created overproduction at guaranteed world prices.

We've seen the ludicrous situation where farmers, whether they're producing beef, butter, or grain, are being paid prices well above world market prices to sustain employment in the various countries. Then the EEC having subsidized them, goes out to the eastern bloc and, at a huge discount, subsidizes their purchases to the point, of course, where the United States lost about 15 per cent of its market share in the grain markets of the world. Notwithstanding countries like Australia, Canada, and the Argentine . . . what we've seen in the last year or two is the United States starting to fight back for its share of the world grain markets. It decided to handle its subsidy in a different form, to reduce the acreage it would allow farmers to produce on and pay them a subsidy not to produce. That is ironic because, with the EEC subsidizing more production than the Americans and the United States reducing production, they're offsetting each other.

But what we've seen this season, after the final projections for the grain crops in the United States, is that, despite a 15 per cent reduction in land acreage, the crops will be up 2 per cent. Of course, the reason is that the farmer's no fool, he takes out his worst 15 per cent of land, applies the same amount of fertilizer as on the previous land plus the 15 per cent and gets higher yields with no reduction in production.

In speaking with Senator Dole a few weeks ago, it appears that both the EEC and the United States are on a treadmill which is going to be hard to get off for political reasons. And what this does to the efficient countries like Canada, Australia, New Zealand, parts of South America, is that we are no longer in a position to get free access to markets. One of the classic examples I saw just the other day was the United States, a small barley producer, deciding to subsidize its barley sales to Saudi Arabia under this program. So what do they do, they drop the price some 30 per cent although they needed to drop it only about 10 per cent to get their share of the market, damaging the market even further and leaving the Saudi Arabian government laughing. This is a major problem facing us around the world because we in the countries that do not subsidize as much depend still on agriculture as an important part of our economic growth. I don't know what the solution to that is other than countries like Canada and Australia have got to put on pressure, through GATT, to reduce this subsidy.

I talked to Margaret Thatcher. She'd love to do something about it but her hands are tied. It is a problem that is going to take a long time as nobody seems to have the solution.

The third point is negative, but could be a positive one. I think the key to the future growth in the world in the next few years is Japan. Japan has been able to maintain high relative performance of real economic growth, has kept low inflation, had high productivity and used an undervalued currency, which the United States did in the 1920s. Japan has won the political battle of getting its products into every other country in the world without having to accept other countries' products in Japan.

And we have a situation where, because it's so export-based, Japan has kept the whole question of domestic demand under wraps. The country that is now almost the wealthiest per capita in the world has a low standard of housing. The quality of life is low in Japan. And yet the government in that country could do a lot, in fact probably more than any other country, to stimulate domestic demand. If it did that and lifted the lid on controlling its own domestic demand, then we would see tremendous growth in Japan, taking enormous pressure off its need to export, and providing other countries with an opportunity to export to Japan. The Japanese are reluctant to bring about change quickly and have resisted it. The only nation in the world that can do anything about it is the United States. Because of the huge trade imbalance between the two nations, the U.S. can exert the pressure necessary to make Japan come to terms.

There is no way any country in the world can continue to run a huge trade surplus and now Japan is using its funds to buy the assets in every other country in the world. There's growing resistance in most countries to Japan; the Japanese are very sensitive to that, but they are doing little about it. The United States is being, in my view, very reluctant for whatever political reasons, friendship probably between Nakasone and Reagan, to put pressure on that country. If it does, I think we will see the trade imbalance disappear, if Japan will stimulate its domestic demand. Otherwise, we're in for an increasing period of protection in the world caused by the fact that Japanese goods will be excluded from certain countries which will be very damaging to world growth.

I remain optimistic that something will happen, but I think the period of growth we've achieved as a result of financial deregulation will slowly peter out. We have to get some real demand growing, by reducing protection and forcing Japan to open up its economy.

Key factors for countries to succeed are the same old boring ones — stability of government, certainty of the rules when you're operating in a country, and management of the economy, which is usually reflected in the rate of inflation of that country and, as a result, the interest rates that pertain.

There are, however, a number of new factors that have been brought about because of the globalization of investment and the financial deregulation that's gone on in the world. Those countries that are embarking or have embarked on deregulation of financial markets have seen enormous growth in the cities and in the financial services business. In Canada, it's obviously happened, in Australia it's happened and, of course, the person who was the architect of it all was Margaret Thatcher. The day after she became Prime Minister, she deregulated London and made it, as it still is, the financial capital, in my view, of the world.

I suppose the second important factor today which the business community looks at is deregulation generally. That is the speed with which one can get investment decisions made in a country, the extent to which you are held up by government studies, and whether you are allowed to rationalize and run a business efficiently so that it can look to serving export markets from the country. I'll come back to one of my few observations about Canada, because most of you would have a much greater understanding than I have, but I think in this area this country leaves a lot to be desired.

The third important factor is an undervalued currency. Most countries that can manage their currency in an undervalued way attract people to invest because it becomes a cheap place to produce to serve the world. But the task is to do that, as the Japanese have done, without high inflation.

I suppose the fourth important factor today as one looks at global investment is the level of taxation and what is imposed on you as a company going to that country to invest. And the combination of taxation and interest rate structure is affecting companies like our own in deciding where to go. I had some statistics taken out which show dramatic differences and if you want to invest a million dollars in a number of countries and you gear it half with debt and half with equity, what do you have to earn to get 30 per cent return after tax? It's a reasonable return. On the equity, not on the investment. So how do you get a 30 per cent return on the half a million you invest if you borrow another half a million? It's not that difficult. For example, in the United States if you take an interest rate of about 8 per cent and a tax rate of 36 per cent, your profit before interest and tax, to get a 30 per cent after-tax rate on your equity, is 27.4 per cent. That's actually lower because of the gearing you've got out of the debt you're using.

Well, I did the United States, Canada, U.K., West Germany, France, Japan, Hong Kong, Singapore, Korea, Australia, and New Zealand. The country that comes out way ahead of everybody is Hong Kong, because Hong Kong has an interest rate geared to the United States, has an undervalued currency, has a corporate tax rate of 18.5 per cent, and has no capital gains tax. I said, all right, let's call that 100 as the index, how do all the other countries stand? The next best countries are basically Singapore, Korea, Taiwan, the growing Asian nations. They're the countries that have not imposed high taxation on the community because they haven't had the entrenched welfare systems and weren't caught up in the handout mentality that plagued the developed western world in the '60s and early '70s.

Canada comes in at 140 on the index. So you're going to earn 40 per cent more in Canada on a profit before interest and tax than you do in Hong Kong to come out with the same result. Singapore and Korea and those countries are about 115 per cent. The United States 122, the U.K. 128, West Germany 116, Japan, interestingly enough, 133, and the last two countries were Australia and New Zealand at 163 and 171. We've got some problems in our country because of socialist governments, and that's very true because they're the great increasers of the taxation burden. But I suppose what it shows is that the major corporations of the world are out raising capital, and I can say at this meeting I'm going to New York in the morning to launch a brand new Elders Investment Company which will be headquartered guess where, Hong Kong. We're going to raise $500 million U.S. equivalent to invest in different projects around the world. It's the most tax-efficient place to start a new company today. That's a practical example of what I'm suggesting. Unless countries understand that their interest rate structure and taxation structure affect where you put your money, as well as the level of regulation, etc., they will never understand how to compete globally. Let's be clear, the competition is going to increase because people who get real investment into their country get buildings and bricks and mortar and factories built, employ their people; those who don't, don't employ them.

Finally, a couple of observations about different countries, and I'll just run through them quickly. By far the most attractive area in the world is the countries I've mentioned in Southeast Asia. They provide real opportunities. The people are hard-working, they're probably the most productive in the world. As their standard of living rises they seem to be able to, as they get higher wages, offset that with improved productivity. I believe Singapore, Hong Kong, Taiwan, Korea are the countries that are benefiting most from the Japanese because their currency is now getting up, having to move the production offshore, just to serve Japan.

Of all the European countries, the U.K. is by far the most attractive. Margaret Thatcher, in my view, is by far the best leader in the world and has demonstrated since she's been in power that she has looked at the cause of what is going to solve Britain's problems and stuck to it. She's got 3 per cent real growth, strong private investment, rising living standards in the country and, for the first time in hundreds of years, the creation of new wealth by individuals who are not part of the old class system. In terms of opportunities today in Britain, the opportunity to manufacture and export into the EEC is second to none. In the services area, the city of London is booming. And in the property area, properties in the vicinity of the south and around London have been rising at 25 per cent per annum for the last three years. As the result of her election there's enormous investment going to the U.K. A lot of the traditional problems we still have in Australia, New Zealand and probably here with the unions and all have disappeared. It is harder to deal with unions in New Zealand, Australia, and Canada than it is now in the U.K.

The other country I wanted to mention was the Philippines. I was there about three weeks ago and met Mrs. Aquino. Until a few days ago I was going to say some very good things about the Philippines, but the one question mark is stability of government. In terms of solving the economic problems in that country, she's got inflation down to 1 per cent, real growth of over 4 per cent, not an overregulated economy and new investment is going into the Philippines. If she can survive the political instability, I think the Philippines is going to be an exciting place to invest.

Australia, New Zealand — high taxes, governments that haven't come to terms with managing their economy well.

New Zealand runs 14 per cent inflation still, Australia up around 8 or 9, big debt problems they're aware of. But today it is not one of the best places to invest.

The United States still has the greatest opportunity because it is a deregulated economy. In that respect you can go in there and you're not held up to anywhere near the same extent by the rules and regulations as in other countries.

As far as Canada's concerned, I really shouldn't say much because I know less than almost anybody in this room, but I'll make one or two comments. The financial deregulation going on in this country will be very important to its short-term growth. The changes in the rules from Investment Canada are attractive to global investors like ourselves. The one problem this country faces is the high level of regulation structurally built in between the provinces, and the fact that the federal government doesn't have enough power to override those. For example, you are negotiating a free trade agreement with the United States, something that is essential to the long-term success of Canada. The problem you've got, however, is because of the overregulation between provinces in a number of your manufacturing industries, they are not ready to compete actively with the United States.

If I can just take the beer business because it's one I know a little bit about. We are required to have breweries in every province if we want to sell beer there. If you had two to three brewers in this whole country you would be competing on about the same basis as the major plants in the United States. We have three breweries with about six plants each, so we've got about 18 plants in this country. And the fact that you can only brew beer in the province where you operate has hindered that rationalization that's so necessary to make you able to compete. Without it, of course, if free trade came overnight the beer industry in this country and the employment it provides would disappear. You've also inflated the price of raw materials by subsidizing the farming community in the production of beer, and you've limited the amount of advertising that can be done, and so it goes on. I'll just use that as an example because if Canada is to get a free trade agreement, which it must, it is essential that you give time to not only the brewing industry but to the many other manufacturing industries in this country to get them into competitive shape. That means one needs to deregulate between the provinces.

In summary, Madam Chairman, I've gone on a little long. I am optimistic. There are some problems. I think Asia and the United Kingdom look to be the best opportunities for investment. The world financial markets are becoming one. Investment for job creation is going to be one of the most important things in the next 10 years. Those who get the benefit of that will be the governments with less regulation and lower tax regimes. And governments will be required to address change much faster than in the last 10 years because competition for investment funds will intensify. Thank you.

Ronald Goodall

I have been especially chosen for this pleasant task, Mr. Elliott, on account of my ancestors. The Goodall name is found in the annals of the year 1181 and was given to those who could brew a good ale. As you well know, sir, Canada is a land of opportunity and I have taken this opportunity of combining a promotion for my inherited latent talent as a potential brewer with an appreciation of an address.

Your company's name has intrigued me for some time. I used to play for a rugby football XV. I thought therefore that the IXL after Elders meant that 39 players formed an Australian rules football team. No wonder it's a rough game.

For years, Fleet Street in London felt the presence of Canadian newspaper barons. Beaverbrook, Thomson, Black. Fleet Street now feels the presence of the Australian newspaper baron and North America feels the presence of the Australian industrialist.

And that unique IXL name appears to be part of a new, fresh approach to the business world by the Australian industrialist. Crocodile Dundee touts Fosters lager in a way that encourages people like me to drink it and ignore the lifestyle beer advertisements of your competitors which send a wrong message to Canadian youth.

I was pleased that you joined us today and have given us your views on Italian organization, the effects of deregulation, on agriculture. You have identified investment opportunities.

On behalf of the Empire and Canadian clubs, we thank you indeed for your address and wish you well in your future endeavours.

Barber Conable

President, World Bank

FINANCING OF WORLD DEVELOPMENT

October 5, 1987

At a joint meeting of The Empire Club of Canada
and The Canadian Club of Toronto

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Sonja Sinclair

Forty odd years ago, when the world's leaders decided to give birth to an agency dedicated to the assistance of underdeveloped or needy countries, the concept was so new that the United Nations didn't know what to call their brainchild.

In some ways, the new agency was going to function like a bank, yet in many other ways it was going to be quite different. But in the final analysis, they decided to call it a bank anyway because, said a committee way back in 1944, "No satisfactory name could be found in the dictionary for this unprecedented institution."

Well, what's in a name? The important fact is that the World Bank has, in the past 40 years, helped dozens of countries and millions of people, by way of loans and technical assistance for a vast variety of economic and social projects.

Many of the countries to whom the World Bank loaned money in its early stages have since become self-sufficient. Indeed some of them, most notably Japan, have become major contributors to the Bank.

Unfortunately, the same cannot be said about a number of other countries, some of whom appear quite incapable to service, let alone reduce their multibillion-dollar loans. According to my admittedly rough calculations, Brazil alone owes the three banks represented at our head table more than $5 billion.

Persuading governments and financial institutions to help such countries dig themselves out of the hole is the World Bank's major challenge—which is undoubtedly why our guest speaker has chosen "Financing of World Development" as his topic for today.

A graduate of Cornell University and Cornell Law School, Barber Conable served for 20 years as a Republican member of the U.S. House of Representatives and as a member of several congressional committees. According to *The Financial Post*, he impressed observers as being "low-key, independent and very smart. He made his name by mastering his field—taxes—and becoming a major force in tax legislation. Unlike most of his colleagues, he never took a campaign contribution of more than $50 because, he said, 'I don't want to be owned.' "

Following his retirement from political life, Mr. Conable was appointed professor of government at the University of Rochester. He also served on the boards of four multinational corporations and on the board of the New York Stock Exchange and, in his spare time, he was active in foundation, museum and nonprofit work.

All in all, it is small wonder that when he was appointed last year President of the World Bank, commentators called him the right man for a crucial job.

Ladies and gentlemen, please welcome the President of the World Bank, Barber Conable.

Barber Conable

It is a pleasure to be with you today, and an honour to be asked to address the combined forces of The Canadian Club of Toronto and The Empire Club of Canada. I understand our host, The Canadian Club, is not too many years from its centennial. I deplore my personal proximity to observing the same milestone, but I suppose with a club, it's a matter of congratulations. While I'm on a personal note, I want to mention a community that we in North America frequently overlook: my mother's family and my wife's father's family both came from Ontario. I'll bet some of you came from New York. As a New York resident, I know my home is less than half the distance to New York City, from Toronto. The point is, we're both kin and neighbours. I'm delighted about the new Canada-U.S. trade agreement, which recognizes this commonality. I personally think it's a great day for both countries.

The organization I now head is a new one compared to The Canadian Club. We have just held our 42nd Annual Meetings of the World Bank and our sister institution, the International

Monetary Fund. It was an exhilarating experience. When 150 nations are gathered together in the single cause of helping to raise economic and social conditions around the globe, and succeed in making some progress along that difficult path, one's spirits are bound to rise.

President Reagan noted in his address to the meeting that someone once defined an economist as the only professional who sees something working in practice and then seriously wonders if it works in theory.

You'll be heartened to know I'm neither an economist nor intent upon talking theory to you. Rather, I'd like to talk realities. In particular, I want to talk a little about some of the realities we face on the global economic scene, and about the opportunities we need to grasp if we are to change that scene for the better. We *must* change it because the prospects for improving the well-being of many hundreds of millions of people in the developing world will get worse, not better, if we don't.

The World Bank is a development institution. Like any institution, it has changed as the needs of those it serves have changed. For 40 years we have been helping governments to secure better and more productive lives for their people. That has not changed. What has changed is the economic environment in which we have to work toward those goals. Much of the kind of help our developing member countries need has changed accordingly.

If you followed the media reports of our meetings last week, you likely have concluded that the Latin American debt crisis is far from solved, and that sub-Saharan Africa's economic situation is still in crisis. Add to this list the less reported, but no less disturbing, fact that even in Asian countries that have growing economies there is still appalling poverty. What you have is a fair picture of the harsh realities we face.

The World Bank has to confront these realities daily because we are the central global institution supporting the development process. Our response has been to seek effective, innovative ways to put our financial and intellectual assets to work on alleviating these problems.

We have committed ourselves to a reinforced effort to combat the worst attack of endemic poverty in Asia and help eliminate it by the end of this century.

We have committed ourselves to help the heavily indebted middle-income countries return to steady noninflationary growth and, for many, a return to creditworthiness and access to capital markets within the next five to seven years.

In sub-Saharan Africa we have committed ourselves to help meet the current crisis by organizing major programs in the severely debt-distressed countries to rebuild their productive capacities. And in doing that, we are equally committed to ensure that the welfare and food security of Africa's millions of poor are protected during this process of adjustment and recovery.

These are no small undertakings, and we cannot undertake them alone. But we *can* provide the leadership.

We are neither a debt relief agency nor a welfare fund. We can, however, help governments design and finance the economic adjustment programs and reforms that can revive economic growth which in turn helps reduce the debt burden and alleviate poverty.

To this end, we have been providing increasing amounts of quick-disbursing funds to governments to assist them with the design and implementation of urgent programs of policy reform. Last year the Bank provided 80 per cent of the total net lending to the 15 heavily indebted middle-income (that is, largely Latin American) countries that are the focus of the debt strategy. Much of that lending was in support of policy reform programs. Unless developing countries undertake those policy changes, their development strategies will surely fail and the money they borrow will just add to their debt.

Our lending role has been crucial because the commercial banks have not been coming forward with new money on the scale needed.

I made it very clear at last week's meetings that it is entirely in the interest of the commercial banks that they play their part in the overall effort to restore growth through adjustment in these heavily indebted countries. The commercial banks, like all of us, want to see these countries return to creditworthiness. That is the only basis on which they can do profitable business with them. But if they won't help revive the growth that will restore the creditworthiness, they can hardly blame others for the loss of business and the reduced value of their share of the large outstanding Third World debt.

We want to work with private lenders and investors, just as we work with official export credit agencies, to assure an adequate flow of resources to these countries. But let there be no mistake. It is not our role to assume the risks or responsibilities of other creditors. Our lending is complementary to, not a substitute for, the participation of others.

If we ask much of others, we ask no less of ourselves. To summarize our role, our continuing effort to help will be threefold:

- First, we will back up with substantial new lending the adjustment programs of countries implementing the kinds of reforms that are really needed.
- Second, we will be looking at innovative market-based approaches to the resolution of debt problems, such as debt-equity conversions and other instruments which reduce outstanding debt and interest payments.
- Third, the Bank and its private sector arm, the International Finance Corporation, will help countries strengthen their domestic financial sectors, especially their capital markets, and will provide financial technical assistance that can particularly help the heavily indebted countries.

This expansion of our lending and our increased catalytic role makes an increase in our capital base essential. Negotiations on a general capital increase for the Bank are expected to be concluded this year now that the United States has announced its readiness to participate in immediate negotiations. My hope is that this new capital will support our lending program for the next six years or so. Canada had earlier agreed readily to these negotiations, and we are grateful for your prompt and unwavering support.

You have been equally constant in your support for our concessionary financing arm, the International Development Association known as IDA, which is such a crucial source of development capital for the low-income nations, especially the poorest nations of sub-Saharan Africa.

The Bank has no higher priority than its long-term investment in Africa's sustained development. One measure, but not the best or the only index of our commitment, is the level of our lending. In the past year, Bank and IDA lending to sub-Saharan Africa totalled about $2.1 billion. Over the coming year, lending should reach a record level of about $3.5 billion. And over the next three years, we expect about half the resources from the new $12.4-billion replenishment of IDA's resources will go to sub-Saharan Africa—again, a record level. Africa is in crisis. Its recovery will come only over a long haul and with huge effort. In the meantime, the crisis must be managed. Adjustment programs must be implemented and sustained if the potential of Africa's 450 million people and its wealth of natural resources are to be realized. But Africa's courageous reform efforts are being hampered in many cases by a shortage of finance and by the burden of official, not commercial, bank debt.

We have therefore proposed an urgent international program of assistance to the most afflicted and most debt-distressed countries which are implementing significant adjustment programs. For them we are calling for:

- concessional debt relief in the Paris club of official creditors;
- increased flows from IDA, together with more co-financing and quicker disbursements;
- an enlargement of the IMF's structural adjustment facility, as urged by Managing Director Michel Camdessus. Canada has already announced that it is willing to contribute SDR 200 million, assuming a tripling of this facility and adequate burden sharing by others.

But Canada is doing still more. Your government recently decided to convert a substantial amount of Canadian loans to African countries into grants. This effectively cancels the outstanding bilateral debt totalling about $325 million to seven francophone countries and complements the write-off of debt which Canada accorded to other Sahelian countries in 1986. Once again, the international community finds itself in Canada's debt.

You have been among the first to recognize the critical nature of sub-Saharan Africa's indebtedness problems, and among the first to take bold and imaginative action to try to help overcome them. May other governments follow your generous and farsighted example.

Meanwhile, the work of policy reform in Africa must continue. It is fundamental to recovery in the region and fundamental to our assistance strategy. We must match Africa's courage to persevere with a strong commitment to assist.

Domestic economic reforms in the developing world will, however, avail them little, whether they be African, Asian, or Latin American nations, if the industrialized nations fail to sustain growth in their own economies. Without that growth, the developing nations cannot hope to grow themselves. That is the reality of an interdependent world. Equally there can be no global economic growth without trade liberalization.

When I came to work at the World Bank just over a year ago, I had barely unpacked my bags before I found myself on a plane to Uruguay, making a 16-hour round trip to deliver a 10-minute speech. The audience was composed of trade ministers gathered under the auspices of the GATT, the General Agreement on Tariffs and Trade.

I willingly undertook that trip to make one simple point: trade protectionism is against the economic self-interest of any nation, rich or poor. The growth of markets, anywhere in the world, depends on an open trading system. That's fact, not theory.

At our meeting in Washington last week, ministers of finance and central bank governors, one after another, called for greater efforts to secure trade liberalization. President

Reagan was particularly strong on that.

Your own Minister of State for Finance, Tom Hockin, reminded us that Canada's own economic strategy is based on trade liberalization. He said, and I quote: "We firmly believe that freer trade can benefit all countries. Freer trade encourages investment, provides new jobs and raises living standards. Expanding world trade is also the only long-term solution to the debt problem."

I could not agree with him more. In the struggle to create a stronger global economy with benefits for all, we are in danger of losing a contest to the self-defeating forces of protectionism. Elevated tariffs, defensive quotas, inefficient subsidies to farmers and to agricultural exports, and a maze of non-tariff barriers are depriving the world community of the gains to be had from greater global integration.

In these circumstances, the success of the GATT Uruguay Round is essential to the welfare of the global economy. The GATT nations should act urgently to assure a standstill and rollback of existing protectionist measures.

I know that when you host the 1988 Economic Summit here in Toronto, you will be placing the restoration of trade liberalization momentum front and centre in the discussions.

As the world's principal development agency, the Bank must constantly be asking when we can do more. When and how can we help people lead more productive, healthier, happier lives; when and how can we help the world better manage its natural resources and protect its environment; where and how can we help women realize their full potential in the development process. The questions are many, and the answers have to be found. That is a crucial part of our task.

In terms of the scale and urgency of the developing world's needs, the Bank's program is a modest one. In terms of the challenges of the current global economic climate, our strategy calls for boldness and imagination in the face of undoubted risks.

A development institution's work is always challenging, but never more so than in critical times. Helping alleviate poverty is always demanding, but never more so than under unfavourable conditions. And investing in long-term development is always urgent, but never more so than when past progress stands hostage to short-term pressures.

Canada, a proud pioneer nation, understands that. You have long been a leader in this cooperative endeavour. You have been generous in your support of those least able to help themselves. You have been in the forefront of the struggle to overcome what Julius Nyerere has called "the three enemies: poverty, ignorance and disease."

Finally, you have been particularly generous in your support for the World Bank, and we owe you a debt of gratitude. The rest of the world should thank you. And I thank you.

Ronald Goodall

It seems to me, Mr. Conable, that the banker's career goes through several phases. In early years, the banker assesses the worth of the local business and lends $25,000. Head office has to be consulted on larger loans. In mid-years, the banker is perhaps at head office approving those larger loans. In later years, the banker assesses the worth of large corporations and lends several million dollars.

Having never seen the financial statements of a country to allow an estimate of worth, I can only marvel at your position administering multi-million-dollar loans to Third World countries; particularly so since decisions that you make, based upon the financial support that you manage to obtain, can have a significant impact on all of us, and all without reference to head office!

After your distinguished career in law and as a congressman, I can only describe your move to the World Bank as adventurous!

You have certainly enlightened us today on the activities of the World Bank in your discussion of lending policies, commitment to Third World financial reform and assistance. You have lauded Canada's role in meeting the debt crisis.

The World Bank appears to be in good hands.

However, as Charles Farrar Browne, one of your countrymen, wrote in *Science and Natural History*: "Let us all be happy and live within our means, even if we have to borrow the money to do it with."

On behalf of the Empire and Canadian clubs, may I thank you indeed for your address today. We wish you well in your work with the World Bank and, as I presume all good bankers wish each other, may your loan loss provisions continue to decline.

Thank you.

Ambassador Clayton Yeutter

United States Trade Representative

THE U.S.-CANADIAN FREE TRADE AREA

October 9, 1987

At a joint meeting of The Empire Club of Canada
and The Canadian Club of Toronto

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Ronald Goodall

In the beginning there was reciprocity, but in 1866 the Reciprocity Agreement between Canada and the United States was terminated. Reciprocity, however, continued to be of interest. In 1904, repeating to The Empire Club an address previously delivered in the United States, Cyrus Birge, former president of the Canadian Manufacturers' Association, held: "But, Sir, there is another question regarding the relations of Canada to the United States that is receiving considerable attention, and that is the much-talked-of one, reciprocity with Canada. I mean much talked of in the United States, for I want to tell you that the cry fails utterly to find a responsive chord in Canada."

We read in the clubs' yearbooks of the preferential tariff and loyalty to the British flag. Reciprocity was a hot topic in our two clubs in 1911. In fact, the pursuit of reciprocity contributed to the defeat of Sir Wilfrid Laurier's government in Ottawa in 1911.

In the 1920s and '30s, any discussion on trade seemed to emphasize United Kingdom/Canada trade and the imperial preference. In 1930, before a Canadian Club audience, economist G.E.G. Catlin summarized current thought: "Instead of old-fashioned free trade there is Empire free trade; instead of old-fashioned tariff reform there is Empire protection."

In 1947-48 terms of a free trade pact were negotiated in some secrecy. But fears of political repercussions appear to have prevented its ratification by Mackenzie King in Canada. Today, 40 years later, or perhaps 121 years later, a free trade pact is before us with the expected proponents and opponents; and some of their arguments today ring familiar to the historian. Perhaps we should heed the words of Edmund Burke in the 1770s: "It is the nature of all greatness not to be exact, and great trade will always be attended with considerable abuses."

Ambassador Yeutter was sworn in as United States Trade Representative on July 1, 1985. As a member of President Reagan's cabinet, Ambassador Yeutter is responsible for the development and execution of American trade policy. He has the challenging task of coordinating a U.S. negotiating position on all trade issues of importance to his country.

Prior to joining the Reagan Administration, Ambassador Yeutter served as president and chief executive officer of the Chicago Mercantile Exchange, the world's second-largest futures market. During Ambassador Yeutter's tenure, the Merc. was one of the fastest growing, most dynamic private sector organizations in the United States.

During the early 1970s, Ambassador Yeutter served in three sub-cabinet posts during the Nixon and Ford administrations. The first was assistant secretary of agriculture for marketing and consumer services, where he had charge of the nation's major agricultural and food programs. He then served for a time as assistant secretary for international affairs and commodity programs, and finally, as deputy special trade representative during the Tokyo Round of multilateral trade negotiations.

Ambassador Yeutter holds a doctorate in agricultural economics as well as a law degree and went from high school to the doctorate without ever having a course grade below an A.

Ambassador Yeutter and his wife, Jeanne, have four children and are presently dividing their time between residences in Virginia and Lincoln, Nebraska.

Ladies and gentlemen, it is my pleasure to introduce to you Ambassador Yeutter, United States Trade Representative, to address us on "The U.S.-Canadian Free Trade Area."

Ambassador Yeutter

It's a pleasure to be here in Toronto. I want to thank The Empire Club for providing me with this opportunity to address the issue of the proposed U.S.-Canadian free trade area. When I accepted your invitation, I didn't know if we would be celebrating the dawn of a new era or performing a post-mortem on lost opportunities. Believe me, it's a lot more fun to celebrate!

We in the United States are pleased with the agreement concluded last Saturday. It culminated 16 months of gruelling negotiations. President Reagan and Prime Minister Mulroney played active roles throughout the process, first by providing the vision and then by demonstrating the political leadership necessary to keep the negotiations on track. Both our governments spent many long hours setting negotiating objectives and devising negotiating strategies. And in the final days of the talks, we met nearly around the clock to complete the agreement.

It is not surprising that many details had to be settled at the political level in the final days; that is the nature of negotiations. But it is important to remember that skilled and dedicated negotiators on both sides laid the groundwork during the previous 16 months. This agreement was not cobbled together at the last minute.

The United States government devoted an enormous amount of time and effort to this negotiation because Canada is our best friend, closest ally and biggest trading partner. We know that our economic health and national security are inextricably bound up with the people of Canada. There is nothing in the world equivalent to the political "open border" between the United States and Canada. Now we are hopefully on the way to an open economic border as well. That would be a truly remarkable achievement for both countries, and each will be far stronger as a result.

President Reagan has been and remains America's leading advocate of closer ties with Canada. The need to strengthen U.S. economic relationships with our North American neighbours was a major theme in his 1980 presidential campaign. As President, he made the U.S.-Canada free trade arrangement a cornerstone of his trade policy. He knows this agreement will be one of the major legacies of his presidency.

It is not just geography that has brought the U.S. and Canada together. We both went through the institution-building experience, carving a democratic civilization out of the wilderness. We are both nations of immigrants, descended from people seeking freedom and economic opportunity. We share a commitment to individual rights, a respect for property and a fierce sense of patriotism. It is only natural that our destinies should be linked.

Yet despite our political and economic closeness, both countries retain their distinctive national identities. This will surely continue—and it should continue—even as our commercial ties grow closer. Patriotism will remain deep on both sides of the border, and that is as it should be. European nations offer reassurance in this area; they have been commercially bound together for decades yet their cultural heritages and national identities are as strong as ever.

Notwithstanding our satisfaction with the successful outcome of these talks, I am not minimizing the difficulties of the past 16 months. These negotiations were characterized by hard bargaining and difficult compromises. That is to be expected and it must be kept in perspective. One cannot change the rules on billions of dollars of trade without controversy. But controversy is not the same as conflict. Throughout the negotiation there may have been hot words and public posturing, but when these historic agreements are ratified our relationships will be stronger and friendlier than ever.

This agreement is not home free, of course. It will be carefully scrutinized by the U.S. Congress and the Canadian Parliament, and it will inevitably generate criticism by both. That is the democratic process. A great deal of information needs to be absorbed, and it will take time for our respective private sectors to evaluate what we have achieved.

During this process, some will try to determine whether Canada or the U.S. came out the winner. That would be a sterile exercise. It is the wrong question because it assumes a "zero sum" solution. In this instance the sum will be far greater than zero and both sides will win.

We must emphasize this over and over again. It would be tragic to evaluate this agreement on the basis of its impact on particular firms, industries or even states or provinces. We must resist the temptation of thinking small, thinking parochially, or thinking short-term. Here in Toronto the proper question is, "Will this agreement make Canada a better and more prosperous nation than would otherwise be the case half a century from now?" I am confident the answer to that question is a resounding "Yes," and I would respond identically for the United States.

In the Rush-Bagot Treaty of 1818, which established the principle of an undefended U.S.-Canadian border, both sides also won: we each strengthened our national security because we were able to create a common defence. Similarly with the free trade area, both sides win because we will share an immense market. That will not only provide Canadian and American companies with profit opportunities not now available to them, but it will also enhance their international competitiveness.

I'd like now to review a few highlights of the agreement.

Tariffs. Until recent years, the reduction and elimination of tariffs would have been the sole objective of a free trade area. And although critically important non-tariff issues were incorporated into this negotiation, tariff issues are still of great relevance. We negotiated an end to all bilateral tariffs within 10 years, beginning January 1, 1989. Some will be eliminated immediately, while others will be phased out in five- or 10-year periods. Although Canadian tariffs, on average, are now higher than U.S. tariffs, over $19 billion of Canadian exports to the U.S. are not dutiable compared to $13.5 billion of U.S. exports to Canada. With free and clear access to the U.S. market, Canadian producers will receive enormous benefits once this agreement is implemented. This element alone should make it worthwhile from the Canadian perspective. When in your history have you ever had the opportunity to secure market access of this magnitude through a single negotiation?

Energy. Free and open energy trade is an essential component of the FTA because it enhances the energy security and increases the industrial competitiveness of both countries. Both sides have agreed to prohibit restrictions on imports or exports, including quotas, taxes, minimum import or export price requirements or any other equivalent measure, subject to very limited exceptions. Considering the economic and political disruptions that energy shortages and surpluses have caused over the past 15 years, eliminating barriers to energy trade will significantly improve the economic well-being and peace of mind of our people.

Automobiles. I know that here in Ontario trade in automobiles was one of the most significant concerns in negotiation. So it was with us. Yet we were able to address these concerns in a balanced manner. At Canada's insistence, the Auto Pact was retained. But to address U.S. concerns we eliminated many of the trade distortions in this industry that have emerged in recent years. We also created a new 50 per cent North American (U.S. and Canada) rule of origin based on direct cost of manufacturing. This will stimulate increased use of U.S. and Canadian automotive parts and materials. We also agreed to create a blue ribbon commission to make sure that our automobile industries remain competitive as changes in the world automotive market occur. I fully agree with the Toronto *Globe and Mail*, which has concluded that the agreement "does not threaten the automobile industry. In fact, the essential feature of the Auto Pact—duty-free access to the U.S.—will be more secure in a comprehensive deal that also stiffens North American content requirements."

Agriculture. At a time when global trade in agriculture is in disarray, the U.S. and Canada agreed to a number of liberalizing policies that will ease trade distortions for our farmers. The agreement offers crop, livestock and horticultural producers on both sides of the border the opportunity to market their products with fewer disruptions from trade barriers. All agricultural tariffs will be removed, each country will be exempt from the other's meat import laws and there will be a limit on the future use of U.S. import quotas on products with less than 10 per cent sugar.

We can't solve all our agricultural problems in a bilateral agreement—the crisis in agriculture is a multilateral one and the global aspects must be addressed at the Uruguay Round. If the two of us were to take significant bilateral action before global reforms are implemented, we would each suffer from the trade-distorting practices of our trading partners. Yet this is still a sound agreement for U.S. and Canadian farmers considering the global nature of many of these problems.

Services. Since U.S. and Canadian jobs are being created in service industries faster than in any other sector of either economy, trade in services has become an important commercial issue in both countries. Under this agreement, each side will treat the citizens of the other side as favourably as it does its own citizens with respect to all new measures affecting services. In addition, the agreement provides separate undertakings covering enhanced telecommunications and computer services, tourism and architects, as well as an annex concerning the transportation sectors. This section on services is also important because it provides momentum for concluding a services agreement at the GATT Uruguay Round negotiations. Both our countries, as major providers of services, will benefit if we can establish multilateral rules in this area similar to those we have just agreed upon bilaterally.

Personnel Movements. The special trading relationship created by the free trade area made it desirable to establish clear procedures for temporary entry by business travellers. Both countries have agreed to ensure easier border crossing for business personnel, including traders and investors.

Government Procurement. Restrictive buying practices of national governments can distort trade flows. Under the agreement, the U.S. and Canada will eliminate many "buy national" restrictions by lowering from $171,000 to $25,000 the threshold at which open and competitive procedures, as set out in the GATT Government Procurement Code, must be followed. Since the United States government is the largest single customer in the free world, this additional access will provide significant opportunities for Canadian suppliers.

Temporary Import Protection (Safeguards). GATT rules allow governments to provide temporary protection or "safeguards" for domestic industries damaged by import surges. Under the agreement, both sides will exempt the other from these actions unless its imports are substantial and are found to "contribute importantly" to the injury.

Culture. The United States recognized the importance to Canada of maintaining its cultural identity. As a result, we agreed that certain cultural areas are not subject to the specific provisions of the agreement. For its part, Canada agreed that future cultural measures will not impair the benefits the U.S. would otherwise expect from the agreement.

Dispute Settlement and Subsidies and Dumping. The question of how to apply countervailing duty and antidumping laws was the most difficult one to answer. Both parties have agreed to retain existing national laws and procedures dealing with subsidies and dumping. But both parties agreed that national antidumping and countervailing duty laws may be appealed to binational dispute settlement panels. These panels will be selected from rosters of fair and impartial Canadian and American experts. The panels will review decisions by U.S. and Canadian authorities to ensure that the laws of each country have been faithfully and correctly applied. This compromise should satisfy the major Canadian concern—that it not be victimized by the arbitrary application of American laws.

I haven't even mentioned the most significant benefit of this agreement. Politicians tend to think that the only ones who benefit from increased trade are exporters, but the big winners will be consumers. The increased competition that this agreement provides will eventually lead to lower prices and greater consumer choice on both sides of the border.

Having sung the praises of this free trade area, I should add that it is not a panacea. It will reduce, but not end, trade friction. It will minimize, but not eliminate, trade distortions. There is no heaven on earth—not yet anyway and certainly not in trade policy—but this agreement offers a method of containing potential disputes that is a vast improvement over the prevailing situation.

None of us can yet fully understand what we accomplished last weekend. It will probably be another generation before the true significance of this agreement can be appreciated.

For over 100 years Americans and Canadians have struggled to create a free trade area, to bring to our economic relationship what already exists politically and emotionally—trust, cooperation and deep friendship. Our children will certainly wonder why it took so long to reach this point. All of us would have had a higher quality of life today had we developed such an arrangement years ago. But better now than 100 years from now.

Over the next few months the people of Canada and the U.S. will have to evaluate the benefits and drawbacks of this agreement. I hope I can speak for all the negotiators when I say that what we ask is that it be considered fairly and on its merits. As you review the agreement, ask yourself, "Is this in the overall economic interest of my country?" An opportunity like this comes along once in a century.

The United States and Canada have always been beacons of hope around the globe. Other nations look to us for leadership and guidance. Their eyes are on us now because what we do with this free trade area will set an important precedent for the rest of the world. If two best friends cannot liberalize trade, if we retreat behind our borders and raise trade barriers, then hopes for multilateral trade liberalization will be dealt a severe blow. Yet if we overcome the obstacles, if we reach deep within ourselves for courage and self-confidence, we will give hope to all those who are fighting international protectionism.

Nothing is certain in our two dynamic economies except that change is inevitable, the status quo cannot remain. The choice then is whether to control and direct our destiny, or to cling to the status quo and hope that the winds of change will not be intolerable.

Our ancestors did not create these two great nations through timidity. They seized opportunity with enthusiasm and eagerly anticipated the future. This free trade area is good for the United States; it is good for Canada. Let's bequeath to future generations the same legacy of hope and opportunity that was left to us. That is what leadership is all about!

Sonja Sinclair
A nightmare that haunts presidents of clubs such as ours is the possibility that the guest speaker will fail to turn up. It's a nightmare that has occasionally come true: blizzards, important parliamentary votes, even a bomb threat, have at times prevented our guest speakers from fulfilling their engagements.

Over the past two weeks, as we watched and listened to the news about the on-again off-again free trade negotiations between our two countries, I am sure both Ron Goodall and I wondered more than once if this was going to be another such occasion. Given the demands of those negotiations I am sure our guest speaker must have been tempted to cancel, or perhaps to appoint some underling to turn up in his place. So first of all, Mr. Yeutter, I want to thank you for resisting that temptation.

I understand you are catching a flight to Boston and I therefore believe I can best express our collective gratitude by being brief. On behalf of all of us, thank you for giving us such a thoughtful and first-hand report on the free trade agreement. I am sure I express the feelings of the entire audience when I say that I hope this agreement marks the beginning of increasingly cordial and fruitful relations between your country and ours.

Your visit to Canada today has been inevitably brief. We do hope you'll come again soon and stay a little longer. For now, we wish you a pleasant, uneventful flight and a relaxing weekend.

Arnold Edinborough

President, The Council for Business & the Arts in Canada

BUSINESS AND THE ARTS: A CREATIVE PARTNERSHIP

October 15, 1987

Chairman: Ronald Goodall, President

Ronald Goodall
This week has been designated Toronto Arts Week recognizing the significant contribution made by the arts to life in Toronto. Today, The Empire Club salutes the arts.

The arts have a profound and everlasting effect on all of us and play an important part in our daily lives. We relieve everyday stress by reading a good book, playing the piano, or listening to music. By music, of course, I refer to that written by the company that includes Mozart, Verdi and Gershwin and not to the screaming of an electric guitarist who, I theorize, has caught his or her fingers in the strings of the guitar.

We are entertained by the magnificent voices of the opera, the intrigue of the theatre and the graceful movement of the ballet. We marvel at the delicate lines of a painting, the reality of a sculpture and the imagination of a native craftsman.

The arts flourish in Canada and Canada has produced artists—writers, dancers, actors, painters—of international acclaim.

We are fortunate today to have with us a man who really knows the arts, Arnold Edinborough. Mr. Edinborough was born and educated in England. His education was interrupted by the Second World War. He served in North Africa and Italy, rose to the rank of captain in the Royal Artillery and was awarded the Military Cross in 1945. His education was then completed by obtaining a Master of Arts degree at Cambridge.

Mr. Edinborough has taught at Queens University, Kingston; has edited the Kingston *Whig Standard* and *Saturday Night* magazine; has authored four books; and chairs, or plays an active role in, a number of organizations connected with the arts. His honours include the Order of Canada, the Silver Jubilee Medal and two doctorate degrees. Remarkably, he has found time to be married and raise three children.

Our guest speaker is a member of The Empire Club and has addressed the Club on two other occasions: on March 17, 1960, the address was on the subject, "Sex and Violence on the Bookstalls." He proclaimed, "I am not an expert on dirty books," and implored us to remove the published trash that unfortunately is still with us today.

On November 14, 1974, the sequel was "The High Cost of Leisure," which did not relate to the earlier address but dwelt upon the need to assist the financing of the arts.

Please welcome Arnold Edinborough, President of The Council for Business & the Arts in Canada, who will address us on "Business and the Arts: A Creative Partnership."

Arnold Edinborough

This week Toronto celebrates the arts. But "the arts" means different things to different people.

A government survey recently arrived at the municipal office of a village in B.C. and asked about the state of the arts in the village, how they were regarded and how they were funded. The village clerk replied: "We are pleased to advise we have four Arts here: Art Johnson, Art Morgan, Art Williams and Art Slinger. They are all pretty well regarded, except Slinger who gets quarrelsome when he's had a few. The first three are all on old age pensions. Slinger, like the rest of his family, is on welfare."

If our city clerk were to answer the same request he would doubtless put Art Eggleton at the top, who is funded by us all to do such things as declare this Celebrate the Arts Week.

And what do we celebrate here in Toronto? What are the arts we celebrate?

First, a symphony which has just been as far north as the Arctic Circle and as far west as Vancouver, playing to people who've never heard a full symphony orchestra before.

Next, an opera company which has just completed the first weeks of its season with Verdi's *La Forza Del Destino*, beautifully sung and imaginatively staged, and Wagner's *Tristan und Isolde* which, as I did not see it, I cannot speak of since my opinion would almost certainly not agree with our daily newspaper critics.

Then, the National Ballet Company which got rave reviews in London this summer and will perform in California this next spring for three weeks.

And that's only the big three performing arts groups.

In theatre we have CentreStage-Toronto Free, Tarragon, Passe Muraille, Actor's Lab, and a dozen others. In dance, a whole festival all through the winter at Harbourfront. In music, the Mendelssohn and at least four other choirs, a clutch of chamber groups, plus a pops orchestra and CJRT's own symphony.

In the visual arts, we have a refurbished Royal Ontario Museum gradually opening more and more superbly designed new galleries, an Art Gallery of Ontario, which is about to embark on the last phase of a multimillion-dollar expansion, and a thriving, competitive art market in two major auction houses, the Yorkville area, and Queen Street West.

We constitute the second-largest film audience on the continent and there is not a new building rising in the city which does not have a specially commissioned sculpture outside it on opening day.

All this activity in the arts is relatively new. In fact, the baby-boomers, the yuppies, are the first generation to grow up with these cultural riches.

Now it is a perception by many of those under 40 that that activity and cultural choice has been made possible by government funding; that whereas the rest of the world thinks of B.C. as Before Christ, we think of B.C.C. as Before Canada Council, a time just as barren in Canada as the Dark Ages B.C.

This is far too simple, and certainly not a valid interpretation of our cultural history. Long before the Canada Council, concerned and cultured Torontonians, and Canadians in other cities, had founded the major arts groups which are still the flagships of our cultural enterprise.

The Toronto Symphony was founded—refounded in fact—in 1923. The Canadian Opera Company in 1950. The National Ballet in 1951. The Manitoba Theatre Centre was founded in 1953, as was the Stratford Festival.

Of the top 10 performing arts groups in this country, which between them entertain more than a quarter of all the people who go to professional theatre, ballet, music and dance in a season, eight were founded before the Canada Council or the provincial arts councils were in place, or, for most of them, even planned.

So who founded these groups? Enthusiastic volunteers, businessmen mainly. Businessmen reacting to an idea of a visionary like John Hirsch in Winnipeg or Tom Patterson in Stratford.

And, of course, their wives. For the first 40 seasons of the Toronto Symphony Orchestra, the women's committee raised more money than the board, which consisted of men.

So when people say that business has only recently become involved in funding the arts, they are wrong. Colonel Gooderham at the TSO, Sir Edmund Walker at the ROM, Vincent Massey and Leonard Brockington at Stratford essentially provided the financing of those institutions at the start, either themselves or through their friends.

What is the situation now? If we take the CBAC sample of 139 performing arts groups in the country with a total revenue close to $200 million, just over half the revenue comes from box office (52 per cent); a third comes from government (34 per cent); and a substantial 12 per cent comes from private donations: a percentage which amounts to some $22 million.

In the visual arts, the picture is different. Private giving is low because most museums, and many galleries, are funded directly by provincial or municipal authorities.

But the great contribution from private and corporate sources is in money for special exhibitions and the donation of works of art. In fact, in 1986-87 Canadian art galleries were given sculptures and paintings valued at over $10 million—more than double the cash *all* the 30 major art galleries had allocated for acquisitions.

As an aside, the CBAC statistics commented that if the 30 galleries had pooled *all* their operating revenue—every nickel of it—they could just have managed to buy Van Gogh's "Sunflowers" at Christie's auction earlier this year.

So corporate and private donations are absolutely essential to our cultural life, and in the past 10 years the corporate community has accepted this fact. To show their acceptance, they have done three things.

First, they have volunteered their people to serve on arts boards and to bring business expertise into the marketing, promoting and publicizing of arts groups. They have offered their skills in accounting, budgeting, computer design, cost control and technological applications of all kinds.

In a scheme we have pioneered at The Council for Business & the Arts called The Young in Art, young, middle-management people are encouraged to volunteer for such board involvement. What we do is ask a group of chief executive officers if we can have access to their middle-management to ask for volunteers. We also survey the smaller arts groups in the city and ask them what skills they are looking for.

We then choose a batch of businessmen with these skills and give them a day-long orientation on how a board works, what problems they are likely to meet and how the art world differs from the corporate world. We also talk to the arts groups to warn them not to ask too much of their new-found talent until they have got the feel of things.

Then we have a referral evening—what I call rather bluntly, a hiring fair. Each arts group brings its chairman and general manager, plus brochures, and sets up a table. The business people then move around and chat until, two hours later, we ask each side to pick its prospects. To our great surprise when we first did it in Toronto, most people picked the organization which in turn had picked them.

So some 50 or more young executives are now serving on some 30 arts boards in Edmonton, Calgary and Toronto—with the scheme due to be launched in Vancouver, Winnipeg, Montreal and Halifax/St. John's in the next six months.

Why do CEOs allow this, knowing they will be losing staff time? Because it is a broadening, sharpening, exhilarating experience for their young executives. It gives them responsibility much more quickly than a corporation could. And it is an enriching *business* experience which makes the volunteer a better manager in his own office than he would otherwise be.

That's the first thing business has done.

The second is to enlarge corporate donations budgets and open them more to culture than they have ever been before. Social service—United Community Fund—still gets a large chunk of the money, plus universities, hospitals and research facilities. But the amount to culture is climbing, especially in those cities like Hamilton and London, where there are only two or three major employers. Stelco and Dofasco in Hamilton; London Life and John Labatt in London.

The third thing is to undertake major sponsorships of arts events. The money for this comes from marketing budgets, not donations, and when most companies' marketing budgets, especially in the retail area, are 20 or 30 times greater than donations budgets, the stakes are higher.

The objectives of a sponsorship have to be clear. They must help to fulfil the corporate marketing plan. Sometimes that plan is very closely allied with the sponsorship.

American Express, for example, offered a small donation for every use of its card in Vancouver, to help fund the Vancouver Partnership, and extended the scheme nationwide to help the National Theatre School, the National Ballet School and the National Youth Orchestra. Pennies per signature added up in the end to $25,000 for each organization. It also meant increased use of the American Express card, at a time when, what with Visa, MasterCard and Diners Club, too many people were leaving home without it.

It is the marketing aspect of sponsorship that has brought business to the fore again in the arts. It is in fact the success of sponsorship which makes people believe business is involved as never before.

And the very large sponsorships do get a lot of attention.

No one at Expo 86 last year could be unaware that the Royal Bank was Expo's banker and principal supporter of the Arts Festival. The initial outlay was well in excess of $2 million. But the only place to buy a passport for Expo 86 anywhere in Canada was the Royal Bank, which also retailed the commemorative coins and medals.

Similarly, another \$2 million or more was given by Petro-Canada to the Olympic Organizing Committee in Calgary so that it could spend another \$4 million probably on organizing Share the Flame which is itself a beautifully crafted, superbly handled campaign, part sport, part arts and all business.

Next month the Royal Winnipeg Ballet will be doing a multi-city tour in all four Atlantic provinces. Evelyn Hart, David Peregrine and the rest of that immensely talented group will bring ballet of a quality rarely if ever seen in places like Glace Bay, Gander, Wolfville and Corner Brook.

It is billed everywhere as the du Maurier Tour of the Royal Winnipeg Ballet. It will cost du Maurier an initial cash contribution of some \$150,000 for the design, rehearsal and mounting of the program. Twice that will be spent on promoting it. And at this juncture in du Maurier's fight with the government, that is exposure well worth the money.

Similarly, Royal Trust has its name on the Canadian Opera Company Ensemble's tour of the Maritimes and Northern Ontario. The Toronto Symphony shared top billing on its poster with Guaranty Trust, for its recent highly successful Canadian Odyssey. Without the very substantial monies thus supplied, neither tour would have been possible.

What's in it for business, though? Why spend shareholders' money in such quantities on the arts?

For several very good reasons.

- The alliance of a business with a very successful, highly regarded arts group not only reflects the good taste and good judgment of the corporation, it shows that it is concerned about the quality of life in every sense, and supports creativity. We are a trading nation, and creativity is the cutting edge of successful competition.
- The provision of such cultural quality and variety as we now have in this country makes us a nation known outside its borders for a sophistication and energy which is often denied us in the foreign press.
- The existence of such dynamic groups in Toronto as I

mentioned at the start of this talk has kept our downtown vibrant, alive and relatively crime-free. It has therefore kept property values up and insurance rates down.

- The plurality of funding which business ensures by adding its 12 per cent to the governments keeps arts groups much more in touch with their public than solely state-aided groups would be—and it keeps the prices down to reasonable limits.

Of course we have arguments about the actual motives of business from those who would prefer to think of art as something pure and not necessarily communicating to the public at large.

Of course we have arts groups and artists—a very few, I think—who think the world owes them a living. But the polarity of such discussion is much less now that business is opening up when governments are closing down.

The aim of all, surely—government, public and business alike—is to revel in our present artistic diversity, quality and depth, a diversity, quality and depth which indeed we should celebrate, not only this week, but every week of our richly endowed lives, in Toronto and across the length and breadth of this exhilarating land.

The appreciation of the audience was expressed by Arthur J. Langley, a Past President of The Club.

Ambassador Simon Reisman

Chief Trade Negotiator for Canada

CANADA'S FUTURE UNDER FREE TRADE

October 16, 1987

At a joint meeting of The Empire Club of Canada
and The Canadian Club of Toronto

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Sonja Sinclair

Some people love it, others hate it, and many others are withholding judgment: "It" being, of course, the deal that Canadian and American negotiators hammered out in Washington a couple of weeks ago. But there is one thing about which everybody seems to be unanimous—with the possible exception of Clayton Yeutter: Canada couldn't have had a better negotiator than Simon Reisman.

As a matter of fact, I could never understand why some Canadians got so uptight when Mr. Yeutter said that there would have been a deal six months ago if it hadn't been for Simon Reisman. Surely he was paying our man a compliment—by admitting that he held out for a much better deal than anything he could have got six months ago.

But then Simon Reisman has had a lot of experience negotiating free trade agreements. Exactly 40 years ago, as a 28-year-old newcomer to the Department of Finance, he participated in negotiations that came amazingly close to producing a common market with the United States. Then in 1964, as we all know, he spearheaded the Canadian team that negotiated the Auto Pact. At one point during those negotiations, a leading member of the U.S. negotiating team said to one of his staff: "Who the hell is this guy, and why don't we have him on our side?"

Canadians are fortunate to have had Simon Reisman on their side throughout his distinguished public service career. I won't go into details about that career except to say that it culminated in a five-year stint as Deputy Minister of Finance, which is about as high as you can go in government without running for elected office.

But Simon Reisman is more than a distinguished public servant and master negotiator. He is in acute danger of becoming a living legend. Ottawa is awash with anecdotes about Simon Reisman—about how tough he is, how shrewd, how pugnacious, how softhearted when the occasion calls for it.

There are stories about his feud with a certain cabinet minister, though my spies tell me that Mr. Reisman and Pat Carney got along so well during the final stages of the negotiations that staff members began to wonder if they should chaperon the pair during an unscheduled stopover on the way back from Washington.

And then there is the story about an incident in a fishing club where the Reismans were spending a holiday a few years ago. A colleague offered Mr. Reisman a gin and tonic which he turned down. "What's the matter, Simon," said the colleague, "are you getting ulcers?" "Oh no," said his wife, Connie, "Simon doesn't *get* ulcers; Simon *gives* ulcers."

Ladies and gentlemen, it is indeed a pleasure and an honour to present to you Mr. Simon Reisman, Canada's negotiator extraordinaire.

Simon Reisman

It is a great pleasure for me to be here today. The Empire Club or The Canadian Club alone presents a formidable challenge. Their combined forces are awesome. And at the Royal York to boot. It is also a great pleasure to address you on a subject that is close to my heart and to yours: Canada's future under free trade.

Ten days ago we reached agreement on the essential elements of a Canada-U.S. free trade agreement. What was agreed will set the stage for securing Canada's future as a strong, sovereign and prosperous nation. Within the next several weeks we will flesh out and put in legal form the agreed elements of the accord. The agreement reached October 3, however, captures the essence of the accord.

Let me assure you in the strongest possible terms that what we achieved is a good deal for Canada. And nothing, not even letting the lawyers translate it into their own special language, will change that.

Reaching agreement was an historic occasion: historic in terms of Canada-United States relations; historic in the development of international trade relations; and historic in its unprecedented achievement of stability and the rule of law in trade relations between sovereign states.

What we achieved will stand as the largest trade deal ever negotiated between two countries. That is only fitting. Canada and the United States are after all the world's largest trading partners. Based on current trends, Canada and the United States will exchange more than $200 billion in goods and services this year. And that is without an agreement. Think what it will be in the future.

What we have achieved is a good deal for both countries. That is important. For the deal to last, both countries must be satisfied they have met their national interest. Both countries must benefit and be able to say they have made things better. I believe we did. This is a win-win agreement.

The agreement will make us richer and more able to pursue the finer things in life. It will lead to a richer Canada, a Canada more able to maintain a strong safety net of social programs, vigorous regional and economic development programs and a vibrant Canadian culture. Those things the scaremongers insisted were at risk in these negotiations were not only never at risk, but fully protected. We fully safeguarded those areas most sensitive to Canadians.

More than three years ago, long before I took on the challenge of negotiating this agreement, I told a conference at the Brookings Institution in Washington:

> If the United States and Canada were able to work out a free trade agreement, it would be a good thing for both countries and a good example to the world. It would make both countries richer. It would also make us better neighbours, because it would remove many of the issues about which we have squabbling for many years.
>
> A free trade arrangement would not weaken Canadian sovereignty or Canadian resolve to remain independent. Indeed, by enriching Canada and by raising its confidence, the agreement would strengthen Canada's purpose and its ability to survive as a strong

free nation.

I believed that then, and I believe it more today. At that time, I did not believe it possible for this dream to come true during my lifetime, let alone that I would be asked to negotiate it.

But it did and I can tell you that I am a partisan and passionate believer in free trade. I reject the pessimism and fear of the proponents of a little Canada who wish to hide behind protectionist walls. I am a proud Canadian and confident in my belief that Canadians can compete with the best. But not with one hand tied behind their backs. What this agreement will do is cut the shackles of protectionism and fear. It will allow Canadian entrepreneurs to roll up their sleeves and take on the world as never before.

We entered these negotiations to achieve two broad objectives: we sought a bigger market and a more secure market. The government sought to give Canadian manufacturers secure access to a market of some 250 million so that they could plan and invest with confidence. We achieved those goals.

I think that this agreement, if it's approved by Congress and by the Parliament of Canada, will create a whole new environment in which Canadians work and live. It will affect their opportunities for jobs. It will affect the kind of work they do. It will affect the income they earn. It will affect the size of our population in a positive way. It will create a positive, constructive kind of environment with new opportunities for expansion and growth.

By the time this agreement takes full effect a decade from now, the average Canadian is going to find he has more money in his pocket and a wide choice of competitively priced goods and services on which to spend that money. He will find he has a better job and a more interesting job and is getting paid more to do it. That is no mean achievement.

This agreement is particularly significant for the younger people, for our children and grandchildren. I don't know if it will affect me very much at my age other than that I know I had a part to play in getting it. But it will certainly affect my children and my grandchildren: what they will work at, what incomes they will earn, how they will spend it and their willingness to stay in Canada and make their careers here. All will be affected positively.

Over the next few months, debate will rage in Canada based on two visions of our country. One is of an open Canada and a competent Canada where our people can stand up and compete with the best. The other is of a country that tries to shelter behind a wall of protection, that looks to the past rather than to the future. It is a matter of whether you have confidence in the country and its people, its prospects and its ability, or whether you are frightened, insecure and afraid to get out and compete.

Freeing up trade means loosening shackles. It means removing impediments and giving individuals an opportunity to express themselves fully to show their initiative and to be entrepreneurs. It means creating jobs. I can only say that those who oppose the agreement must think Canadians aren't good enough to compete in a bigger world. The Canadian people will confirm that they are wrong.

Having said this agreement is good for Canada and meets the main objectives set by the Government, what does it do and how will it do it?

Quite apart from the size of markets and volumes of trade affected, this agreement is precedent-setting in the range of issues covered.

We have agreed to eliminate all tariffs between us. This will be phased in, as many of you know, in stages based on close consultation with Canadian industry.

I know it is conventional wisdom to say that the tariff matters little today. Well, don't you believe it. By removing the tariff on both sides of the border on thousands of items traded between Canada and the United States, we will give Canadian industry new opportunities. It will increase the competitiveness of Canadian exports ranging from petrochemicals to furniture. It will lower costs to Canadian consumers of everything from food and wine to machinery and computers.

We will establish improved conditions for trade in agriculture. All tariffs are eliminated. There will be new opportunities for exporters of beef, veal and pork—a major priority in Western Canada. We have secured undertakings from the U.S. not to intensify quota restrictions affecting Canadian exports of sugar-containing products and not to introduce any restrictions on grains. Canada has, meanwhile, maintained intact its marketing board system for dairy, poultry and eggs.

On trade in energy, we have agreed to reciprocal concessions to remove barriers to trade in oil, gas, electricity and uranium. Our objective was to assure the freest possible bilateral trade in energy. With this agreement, we will have secured our access to the U.S. market for Canadian energy exports.

At the same time, we have maintained our ability, should we judge there to be a real need, to take measures to prevent the overexploitation of Canada's nonrenewable energy resource.

It stands to reason, if we want free and secure access for our energy products, that we agree not to abuse our best customer in a real shortage situation. This has been criticized. Let me remind you that we already have similar commitments under the International Energy Agency. That is what good trading partners do for one another.

We have also agreed to reduce and remove barriers to trade and investment in services. We have established for the first time ever a contractual code of rules to cover trade in services. Any new measures taken by either government will in future have to conform to the reciprocal undertaking to extend national treatment to each other. Additionally, we have made some progress in rolling back existing barriers in financial services, enhanced telecommunications and architectural services. More such sectoral accords may be reached in future.

We have agreed to provide for a more certain and open investment regime, while preserving our right to review significant takeovers and maintain important Canadian ownership requirements now in place.

We have a specific agreement which facilitates travel by business and service personnel between the two countries. Canadians will be able to sell and service their sales as never before.

We did not get the big procurement deal we sought. The Americans were not ready. But we made a start. Federal procurement rules will be eased. This will open about $650 million in Canadian contracts to U.S. bids, and almost $4 billion in U.S. contracts to Canadian bids. The two countries have also committed themselves to further easing of procurement rules in the future.

All these commitments will lead to a more open exchange of goods and services between us and a more rational pattern of investment. By eliminating barriers at both borders, we will both emerge winners. In both countries, industry will be able to specialize and increase productivity.

But Canada also wanted secure access. Canadians wanted to be sure that when they invested to serve the North American market, they would not be subject to the whims of American courts and regulators. They wanted a fair deal. They complained that U.S. trade laws were being used capriciously to harass them. They had lost confidence in the fairness of these laws. Without such security, investors will inevitably be attracted to the safety of the larger market.

The United States is on a protectionist tide. That is not going to be reversed soon. The new omnibus trade bill, when it comes out, will be in a protectionist direction. The choice for Canadians is to be on the inside of that protectionist wall or on the outside.

Most Americans believe Canadians are fair traders. We're not the main target of their complaints of being treated unfairly. But their anger has sideswiped us and given many opportunities to those who have a bone to pick with Canada.

In general, trade law and practice, both national and international, afford far greater rights and protection to domestic producers than to exporters or consumers. What we have now achieved is a significant step toward correcting this imbalance.

The two governments have agreed to a unique dispute settlement procedure that guarantees fair interpretation and impartial application of their respective antidumping and countervailing duty laws. It provides an insurance policy and introduces accountability to U.S. regulators and investigators. In effect, we have established a watchdog to ensure that the laws are interpreted fairly and applied properly.

New limits are also placed on the use of emergency trade laws against import surges, with binding arbitration, if necessary.

Either government may seek a review of an antidumping or countervailing duty determination by a bilateral panel with binding powers. Disputes with the United States will be assessed on the basis of U.S. law, those with Canada on the basis of Canadian law. Since this joint review will replace existing rights of appeal to our respective federal courts, this procedure will *not* add another level of litigation to the already complex, costly system of trade remedy law. Moreover, such a panel will be oriented toward practical, commercial policy considerations rather than fine points of law.

The success of this review procedure will not be counted in the number of times it is invoked, but in the number of petitions it discourages and the number of politically inspired decisions it halts. That is the essence of a successful watchdog.

This system constitutes a very strong beginning. But we have also agreed that in the next several years, Canada and the United States will develop "a substitute system of laws in both countries for antidumping and countervailing duties." It is intended that, by 1996 at the latest, U.S. and Canadian trade laws respecting each other will be replaced by mutually developed North American trade rules. In sum, within 10 years of entering trade negotiations, the existing system of unilateral laws, unilaterally interpreted and enforced, would be replaced by jointly formulated rules, jointly enforced within North America.

A Canada-U.S. Trade Commission will manage the agreement. No new laws affecting bilateral trade between the countries may be passed without consultation and joint review, if necessary, after January 1, 1989.

For the period between now and when the agreement enters into force, we have agreed to a standstill. We have agreed, to the fullest extent possible, to behave as if the agreement is already in force.

Americans will see this agreement as mutually beneficial. There are many Americans, including congressmen and senators, who will want to complete this deal with Canada.

But some will have to swallow hard on the question of the apparatus we put in place to settle disputes. For the first time ever in history, the Americans have accepted the idea that a binational institution with a neutral chairman or a neutral judge will be the ultimate appeal against actions by them under their law. That is very big. They will see this as a major step. I am confident that when they see it in its proper perspective, they will accept it as eminently fair and reasonable.

Canadians will come to realize that it is a major step for this great power, the United States of America, 10 times the size of Canada in population, 11 or 12 times the size of our economy, a major world power, to agree with its neighbour that in the end, in the last analysis, if a dispute develops between them, that dispute will be resolved by the two countries jointly and with a neutral chairman if we need one.

And what of the naysayers and the scaremongers? Did they have a point? They said we would bargain away our culture; that we would put our social programs at risk; that we would give away the right to promote regional development; that we would destroy Canada's farm marketing systems; and, unkindest cut of all, that I would gut the Auto Pact. They turned out to be wrong, misinformed and mischievous. The agreement safeguards areas sensitive to Canadians. And have they recanted? No, they continue to whine and shilly-shally.

The agreement does not threaten Canada's social programs. Indeed, social programs were never at issue. What we have achieved, however, will make Canada more able to afford quality social programs for all Canadians.

The agreement will not in any way limit the capacity of the government to nurture Canada's cultural industries and policies. We have safeguarded our right in Canada to pursue unique cultural objectives. Again, there was never any question that the agreement would undermine Canada's cultural identity. And again, the wealth which this agreement will generate will benefit Canadian support for the arts and for our cultural industries.

On the issue of regional development, and the question of subsidies, we shall continue to be able to pursue and promote our programs of regional development in Atlantic Canada and the West, regions of the country that have unique problems and possibilities. We have safeguarded our right in Canada to combat regional disparities. This is such a fundamental part of the essence of Canada that one has to question the motives of people who cried wolf about this one. What did they hope to achieve?

The agreement does not threaten the automotive industry. In fact, the essential feature of the Auto Pact—duty-free access to the United States—will be more secure in a comprehensive deal that also stiffens North American content requirements. The Auto Pact is preserved and we have agreed on rules of origin which will provide new opportunities for employment and production in North America in this vital sector. Both domestic and offshore assemblers and producers of parts can prosper under the new arrangement. We honoured our pledge to retain the Auto Pact and only entertain suggestions which would make things better.

The agreement exempts Canada's brewers. This is a mixed blessing. I am aware of the higher cost structure faced by the Canadian brewing industry. But I would hope that once interprovincial barriers to trade in beer have been removed, Canadians will want to see the benefits of open trade and competition extended to this industry.

The agreement does not threaten agricultural marketing boards or the supply management system. But it does give Canada's farmers better and more secure access to the richest market in the world. I am referring particularly to livestock and red meats, so vital to our Western economy.

The Prime Minister made it clear from the outset that we did not want a deal for the sake of a deal. We wanted an agreement that reflected a clear Canadian bottom line—in terms of what we needed and what we were not prepared to negotiate. We met that bottom line.

That led to some agonizing decisions but, in the end, the government made the right choices. We got a good deal, a balanced deal and a fair deal. The process is not over but we have dealt with the major elements and the results are overwhelmingly positive.

May I interject a personal note here. I considered the Prime Minister's confidence in me a great honour. For someone who worked for 40 years to open markets and reduce barriers, it is a singular distinction to be allowed to crown my career with this agreement. I want to say that it was a great team effort. Throughout the piece, I had the support of a first-class group of dedicated Canadians who shared my dream. But the real honour should go to Brian Mulroney, a Prime Minister who had the vision and the courage to see this challenge through to its conclusion. This is his agreement.

But it is not just an agreement for Canada and the United States. It is an agreement which strikes out against protectionism worldwide. It is an example to the world and a catalyst to the Uruguay Round of multilateral trade negotiations. What we achieved together bilaterally, we will seek to carry forward with all of our trading partners at the GATT table in Geneva.

Protectionist and inward-looking forces in both countries will now try to mobilize to defeat this historic agreement. They will not succeed. It is a political fact that the forces of protectionism are generally more focused, more vocal and better organized than interests that benefit from free trade. But their fears will not withstand the dedication and vision of those who see a great future for Canada.

On two occasions over the last century, similar initiatives have been defeated by the forces of protectionism and negativism. This time the hard work and determination of those who prefer competition and challenge to protection and restriction will ensure that this historic initiative comes to fruition.

The rest of the world is not standing still. We cannot afford to rest on our laurels if we wish to survive and prosper in the 21st century.

Our country faces an historic challenge. Let us take it up and move forward together.

Ronald Goodall

Your service to this country, Mr. Reisman, outlined by Sonja, as a junior and senior member of trade negotiating teams, as a deputy finance and industry minister and in many other governmental capacities, has spanned a number of years and is indeed well known and recognized.

The recent result of the free trade negotiations, although awaiting various approvals, has given you a certain amount of personal satisfaction at this stage of your career. I do not believe this is the end of your career as you stated.

You seem to have had a fair share of difficulties in these negotiations, least of all, I suppose, making sure that your opposite number really understood what was being negotiated! Indeed, I believe you were described as "abrasive and negative."

The dictionary seems to define abrasive as "capable of rubbing or grinding down" and negative as "refusal to accept or countenance." I am glad you were abrasive and negative and not smooth and positive!

I chose Canada for my home. When I return to Canada from abroad I sense a certain unique difference between Canada and other countries. A difference created by a culture, a history, and a product of trade patterns. You have assured me that my perceived difference has been suitably protected.

It has been said by Benjamin Franklin, the American statesman and philosopher: "No nation was ever ruined by trade."

Media opinion to date seems to be supportive of free trade. But the selling of and the debate on the trade agreement has just begun. Your address today has been most helpful in assisting us to understand and decide upon the merits of the agreement. In fact, I believe both Sonja and I will be experts on free trade by the time our presidencies expire.

On behalf of The Empire Club of Canada and The Canadian Club of Toronto, I wish you well in your future endeavours and thank you generally for your years of service to this country and specifically for your presentation today.

Douglas McAndless

Past President, Ontario Teachers' Federation

EDUCATION AND THE KNOWLEDGE-BASED SOCIETY

October 22, 1987

Chairman: Ronald Goodall, President

Ronald Goodall

Education is in the news again. Some teachers are a little unhappy with hours of work. Some chairmen of boards of education are a little concerned with the perceived need of a strong public education system. There is debate within business groups about an education crisis, evidenced by high drop-out rates from school and increased illiteracy.

Is the work of the teacher impeded by the nightly obsession with the TV set and by ready acceptance of actors' performances as patterns of behaviour? Does the everyday and omnipresent computer use processing routines which require merely a mechanical selection process and not an inquiring thought process?

Have the ready availability of social welfare and assistance from government and the urgings of social workers to exercise one's independence and rights destroyed teacher and parent control over students?

Fortunately, to face these problems and to meet this challenge to educators, we still have those relics from the past, the schoolma'am and the little red schoolhouse. Perhaps not in the same shape—the schoolma'am is quite emancipated and the schoolhouse 20 or more times larger—but that dedication to a vocation still exists. Education is recognized as a basic necessity, not only until one reaches the teenage years but throughout a lifetime. The cane is gone (it did me no harm, I can still sit down) and perhaps the French teacher is no longer known as Killer Dawson. The only advice I can offer you and your colleagues, Mr. McAndless, in meeting this challenge, is to pass on the words of Oliver Goldsmith: "Let schoolmasters puzzle their brain, with grammar and nonsense and learning, / Good liquor I stoutly maintain gives genius a better discerning."

The Empire Club has a history of connection with the world of education: three recent past presidents—Dr. C.C. Goldring in 1955; Dr. Z.S. Phimister in 1961; and Graham Gore in 1967—were Directors of Education of the City of Toronto.

Doug McAndless was raised in a small village north of London, Ontario. He grew up on a farm and a bake shop and graduated from a one-room country schoolhouse. He attended London Teachers' College and commenced teaching, specializing in history and mathematics.

He graduated from the University of Western Ontario with a Bachelor of Arts degree and earned his Master of Education (administration) degree from Wayne State University in Detroit.

He was vice-principal at the Ryerson Public School (London) and has served as principal teacher at Lord Roberts, Ecole Alexandra and Chippewa Public School.

Doug has been very active in London and Ontario teacher federation committees and organizations. In 1986, he was elected President of the Ontario Teachers' Federation. He has served as a Director of the Canadian Teachers' Federation since 1983.

Doug has been active in his home community in London where he has served in the Canadian Armed Forces (militia) for 28 years achieving the rank of lieutenant-colonel and commanding both the 22nd Service Battalion (London) and the Elgin Regiment. He has served as an elder and Sunday school superintendent of Robinson United Church, president and founding director of Stoneybrook Sports Association and a member of the Royal Canadian Military Institute.

Doug is married to Jacki and they have three grown children and two granddaughters. He has been honoured as Teacher of the Year in London in 1976, earned the Canadian Forces Decoration, been awarded the Queen's Jubilee Medal and he has been made a Fellow of the Ontario Teachers' Federation.

Please welcome Douglas McAndless, Past President of the Ontario Teachers' Federation, to address us on "Education and the Knowledge-Based Society."

Douglas McAndless

During the past year, education has become the hot news item. The Throne Speech last spring highlighted education and had us all excited—unfortunately, it was all sound and fury signifying nothing because the budget which followed fell flat when it came to the government putting their money where their mouth had been. Then the election promises poured. As a teacher in Ontario I could have been lulled into believing Bonanza Days were about to begin. The government has been elected and we in education will endeavour to ensure that Ontario's youth is not shortchanged.

The Toronto Star—and I hesitate to even use that four-letter word—has stated that education will be their paper's priority for the next number of years. If the future is painted as black as the present, and I refer to the six lengthy articles that appeared last May, teachers and education are certainly going to be damned. My guess is that they have commenced in a very negative tone in order to take full credit for the tremendous improvement a few years hence.

Do not get me wrong. Education and educators are not perfect. They never have been nor are they likely to ever achieve that exalted position. But it is well to note that education has currently the most highly qualified teachers with the greatest amount of experience that we have had in the history of Ontario. Yet the challenges of the knowledge/service-based economy are not being met at present and it is not due to a mass of unmotivated teachers.

At this point in my address I was about to embark on a litany of criticisms made by the *Star*. I'm not going to do that. At 4:45 one morning I was lying in bed wide awake trying to come up with ways to improve my school. I believe these real problems may help to make my point.

I have an experienced Grade 8 teacher. She has 27 pupils, three who are "general learning disabled," two who are on "individual plans." Simply put, she has 22 regular students with their broad range of abilities and five children with special needs. These five are withdrawn for resource help—the three for about one-quarter of the day, one twice in a six-day cycle and the other one once. The class is on rotary so four other teachers must make special program arrangements. Sue also teaches core French to a couple of classes, one of which is a Grade 4 made up of 40 pupils. Sue arrives at school by 8 each morning and works at home each night until well after 9:30. True, she has spent a couple of hours whipping together dinner and eating but her children are old enough to do their own homework and get ready for bed. This is no novice but an experienced teacher. There are tens of thousands of "Sues" in Ontario's teaching force.

In my primary division, I have one small Junior Grade 1 with 19 pupils. These are children with learning problems or very slow to mature. They are functioning like kindergarten or earlier but are at least six years old. The rest of the primary has more than 27 pupils per class, most at or above 30 and many of these classes are split grades.

In a school of 434 pupils, I have almost 60 who are new Canadians with virtually no capacity in English. They come from Japan, Vietnam, Korea, Afghanistan, El Salvador, Honduras, Germany and Poland. They receive English-as-a-second-language help for about one hour a day. The rest of the time the regular classroom teacher must provide a program for these children.

My Home and School were so ashamed of the appearance of the drapes on the windows at the front of my school that they wanted me to make them a priority on my furniture requisition. They are, but first are carpets for the primary classes, bookcases for three classes and I can maybe do one or two classes with drapes. Our staff room furniture is old and much has had to be discarded to the point where most of the staff must sit on metal folding chairs for lunch.

I'm in a pretty good school. The children are proud of their school and we have very good parental support. The school, comparatively, is pretty well equipped. It is one of the better communities in which I have worked. I have a dedicated and hard-working staff who come up with hundreds of ways to make education come alive and we are accountable. We are accountable to our students, their parents and to society but the idea of province-wide testing will not make us more accountable and could reduce the effectiveness we are currently achieving.

OTF is and has been prepared to work with the Ministry of Education in developing matrix testing which can and will give province-wide achievement levels without reverting to an archaic form of testing.

A second process is the standardized OAC English exams. The evidence which prompted the move was some very simple research which indicated that Grade 13 examinations varied a great deal from teacher to teacher and school to school. It was not necessarily that teachers had been too easy in setting the exams but that with no guideline it was not fair for the students. It is, after all, a bit like flower arranging. Each teacher has the same set of flowers but there will be different ideas as to how they might look. The new process will hopefully allow teacher-autonomy and produce a more equal product and a fairer test for all students.

We have research which tells us clearly that most learning problems start in the primary grades. We know now that many of the basic skills of reading, writing and numeracy develop quite irregularly in spurts with frequent reversals. We know that if we can provide the type of individualized learning in the early grades, the vast majority of problems in later years disappear or are significantly reduced. So, where do we have the smallest classes? At the secondary level. Where do we have preparation time? At secondary again, and that if you do not count college and university.

The other piece of information which I believe impacts on educators is a major research work by Dr. A.J.C. King from Queen's University for the OSSTF entitled, "The Adolescent Experience." I will quote but a few facts from this study which is the result of examining the responses of 45,000 students in Ontario. I urge you to read the whole research paper. Teachers are trying to identify the problems and find cures.

Dr. King found that students who participated in extracurricular activities were far more likely to do well at school. It may be that good marks and a white-collar background promote such participation but I believe that teacher dedication and the participation may promote a good attitude and better marks.

These extracurricular activities don't just happen. They too add to the teacher's workload.

Another startling revelation was that of all the students who enrolled in a General-level program in Grade 9 only 1 in 25, a mere 4 per cent, ever graduated from a college of applied arts and technology. Something is seriously wrong with the way we are dealing with the General-level student. The Minister of Education has made this a priority and OTF is very involved in a small work group examining the General-level program. But again I emphasize that most learning problems begin to appear in the early grades and it is easier and less expensive to solve them at that level than it is to wait and try to remedy them after they have left school.

In the past couple of months there have been groups proposing that the educational system should be teaching daily physical education; providing explicit instruction on the use of condoms and the prevention of AIDS. Bill 80 from Tony Grande would have put Heritage Languages on an equal basis with Part XI, French-language schools, and there was a leaked report on "mandatory" race relations policy. These have been issues on which OTF has attempted to protect the rights of teachers and students to ensure the best quality of education is provided and not eroded to meet the demands of every vocal group.

However, let us look at the future for Ontario and the challenging and changing role education must assume as we approach the 21st century. To do this, I would ask you to rethink Canada's position in the world today.

Canada—to the north of us is mystery, to the south importunity, to the east history and to the west, the east. Let me explain briefly, and I confess these images are not my own but those of Dr. Robert Moore, a speaker at Mont Ste. Marie. To the north we find the ice age still at work. God's work has not been completed and there is still mystery to unfold; and beyond the Arctic—Russia—cloaked in secrecy. To the south we have the United States with its tremendous power, influence and totally undaunted arrogance. To the east we have Britain and France, our two founding peoples, and a host of other European cultures who have added to our Canadian mosaic. And to the west the Pacific rim, 15 years ago a hopeless jumble of struggling humanity but now emerging as industrialized nations. We may be wise to cast our eyes to the west: Hyundai, Suzuki, Mitsubishi, Hitachi, just to mention a few household names of the '80s.

Canada is a trading nation. More than 30 cents of every dollar is achieved by foreign trade. Our traditional trading partners have been the United States and Europe. In this decade our trade with the Pacific has surpassed our trade with Europe. An interesting fact is that Canadian industry devotes an average of two hours of upgrading training per employee. Korea spends 200 hours on the same type of training. Korean salaries are 20 per cent those of Canadians and they are fearful that Third World countries will usurp their trading position and I do not suggest that salaries are the place to start our competition.

The challenges are before us. I have touched on the economic future of Canada but I could also spend time discussing the dangers to our environment. Daily we pollute our air and water so that by the middle of the 21st century the nation with the world's largest supply of fresh water will have destroyed most of it. How much more acid rain will it take to make us realize we must stop? The rain forests of the world are being destroyed annually by an area the size of Northern California and they may never be replaced.

Or look at the debt of the Third World, $3 trillion. The interest on it exceeds by a wide margin the total aid provided by the wealthy, and so again the cash flow is out of the poor countries. How long will these nations be satisfied to live in poverty without striking back.

Tons of top soil are lost annually through floods and wind and careless soil management and our food production capability declines. Yet the population by 2020, I am told, will be more than 20 billion people. How will we feed this horde?

These are a few questions and I could throw in nuclear armaments and the tremendous increase in technology as challenges our educational system must address. I would suggest that we must teach children how to make value judgments because the crises facing the world today are not all economic nor technological. Some are a matter of the survival of the world. If you want changes in the end product of education you must make the real changes in the process 15 years ahead and you must start in the primary grades. The students in Grade 1 will be graduating from high school in the 21st century. We have 110,000 teachers, the vast majority of whom are doing a superb job but they are not receiving the support they need to achieve all the goals that Ontario citizens have set out for them. Criticism alone will not make it better. A concerned public can help, ample resources, clear direction as to where we must go and a small thank you now and then for the tasks accomplished.

I have one small example of a supportive corporation. Pizza Hut and their "book-it" program to encourage students to read. True, it is probably not totally altruistic but it is more likely to produce positive results than sitting back and taking pot shots.

Education is the most important primary industry of this decade. If Canada and Ontario are to prosper for all citizens we must start now to put in the resources to guarantee our future in the 21st century.

The appreciation of the audience was expressed by Angus Scott, a Director of The Club.

Peter I. Bijur

President and Chief Executive Officer
Texaco Canada Inc.

REGULATION IN THE CANADIAN PETROLEUM INDUSTRY

October 29, 1987

Chairman: Ronald Goodall, President

Ronald Goodall

The name Texaco means many things to me. There are the drinking glasses. My family has thermal glasses with scenic pictures of Canada at the cottage and other glasses at home. In fact, we also have cutlery and china place settings, all provided because my wife and I filled up with Skychief or regular gasoline.

Then, there are the Saturday afternoon operas sponsored by Texaco for many years, and, of course, the familiar service stations. Wherever you go, trust Texaco. But these associations with the Texaco name reflect only a small part of one of Canada's largest integrated petroleum companies.

We do not readily recognize a Canadian corporation which traces its history back to 1873 when Canada was only six years old; a corporation very supportive of the arts; a corporation whose assets include interests in oil and natural gas exploration activities in Saskatchewan, Alberta, British Columbia, the Beaufort Sea, offshore Nova Scotia, Brazil and Africa; refineries in Nanticoke, Ontario, and in Dartmouth, Nova Scotia; a distribution and marketing system from coast to coast employing more than 2,100 retail outlets, some of which are currently giving a glass for two fill-ups!

Peter I. Bijur was born in New York, New York, and is a graduate of the University of Pittsburgh with a Bachelor of Arts degree in political science and holds a Master's degree in business administration from Columbia University.

Mr. Bijur brings to us today insights and experience acquired during a career spanning more than 20 years with Texaco.

Joining Texaco Inc. in the United States in 1966, he occupied positions of increasing responsibility in marketing and supply. He gained first-hand knowledge of world energy trade, particularly for crude oil and petroleum products, as president of Texaco Oil Trading and Supply. More than half of his career has been devoted to the marketing of petroleum products, although business experience was gained also in the public affairs and strategic planning departments of the company. Mr. Bijur also played an important role in the disposition of selected assets related to Texaco's acquisition of the Getty Oil Company.

Mr. Bijur was named a director of Texaco Canada Inc. in 1982 and took up his current assignment in Toronto as President and Chief Executive Officer of the company in January this year.

In his spare moments, he finds time for jogging and flying single-engine aircraft.

Mr. Bijur is married and he and his wife, Anne, have three children.

Ladies and gentlemen, please welcome Peter I. Bijur, President and Chief Executive Officer, Texaco Canada Inc., to address us on "Regulation in the Canadian Petroleum Industry."

Peter Bijur

I consider it a privilege and pleasure to have this opportunity to address The Empire Club. And in my remarks today, I want to share with you some thoughts from a dual perspective—that of an American and one who heads a large and successful Canadian company. From this vantage point, it's my view that Canada ranks among the most fortunate countries in the world for many reasons.

Driven by international market forces, Canada's economy is moving toward an environment characterized by far less regulation. I want to discuss some of the implications of that deregulation in the context of future economic growth and the importance of the free trade agreement currently pending between Canada and the United States.

Now, courage is the power to let go of the familiar. If Columbus had turned back, no one would have blamed him. No one would have remembered him, either. The "sure thing" boat never gets far from shore. It is always safe to assume, not that the old way is wrong, but that there may be a better way. It is easy to be critical of something new.

For any critic of any policy, however, the real test is to come up with constructive alternatives. And in my view this comment particularly applies to the current free trade debate.

Jean Jacques Rousseau said, "Man is born free; but is everywhere in chains." In modern society, that might be altered to read: "Man is born free, but is everywhere regulated."

In a society such as ours, government regulates a great deal of human activity. While some regulation may ensure predictability, it still denies us new opportunity. We are not questioning here regulation of such matters as zoning bylaws or traffic patterns. Here and now, we are concerned with regulations governing day-to-day economic and business activity.

A certain amount of this regulation is beneficial. But much of it is not. We tend to be *over-regulated*. This overregulation impedes the general welfare, innovation and level of opportunity in our society.

To be sure, in certain instances the benefits of regulation may be evident. Two cases illustrate the point, the first when a monopoly exists. When monopolies occur, for whatever reason, society usually feels some form of regulation is appropriate to provide a counterbalance. The second case arises when, in a competitive industry, there is no incentive to bear a cost which would render a firm uncompetitive in its field. Regulation will impose the same cost on each of the players, thereby solving the problem.

But there is an economic cost to be calculated—likely in the form of higher prices. Unfortunately, many regulatory restraints end up costing more—in taxes, red tape and higher prices—than the abuses they were supposed to correct. And I think most of you would agree that the daily cost of complying with government regulation has risen dramatically in the last decade or so.

Beyond the limited but legitimate uses of regulation there is a sea of unnecessary and even unfair regulation. Why unfair? Because every benefit or apparent benefit of regulation is achieved at someone else's expense.

In addition, there are important non-monetary costs discouraging entrepreneurship and innovation, thus reducing the range of opportunities open to citizens in a market unfettered by regulation.

Why then do we have so much regulation if it is truly not justified? Politicians often favour regulation for a simple reason. Regulation offers a clear and definite benefit to some well-defined group of constituents at a cost that is spread across the population and is not immediately apparent to anyone. Regulations detail how laws are applied. And regulation tends to *beget* more regulation as attempts are made to accommodate change. Moreover, adding new regulations is *always* easier than disposing of old ones. Regulations tend to be cumulative, and cumulative regulations can have wholly unintended results—another reason for caution.

The centrally planned economies of the eastern bloc might be cited as the ultimate example of regulation carried to extreme. Extreme rigidities result from official concern over every aspect of human activity. But even there, changes now appear to be emerging.

Interestingly enough, economic change cannot often come about without substantial political change. It has been observed more than once that a free economy requires a free society. It is not a coincidence that the world's strongest economies are democracies.

The western industrial world has been moving toward deregulation over the past decade. In the United States, airlines, trucking, railroads, financial institutions, communications, and the petroleum industry have been substantially deregulated.

The United Kingdom under Prime Minister Thatcher has pursued similar policies including the sale of many state enterprises to private interests.

While this was going on in the rest of the world, here in Canada we were moving in the opposite direction—toward greater regulation.

Canada's recession was much deeper than that in the United States and the recovery was markedly slower.

Now, no single explanation can account for this divergence, but the sharp differences in regulatory policy during the early 1980s are generally thought to have contributed to the contrasting performance in these economies.

Canada's economic growth has accelerated in the past few years, however, surpassing the U.S. in 1985 and 1986 and topping all economies in the OECD last year.

Not surprisingly, in this time frame Canada made some important progress in deregulation. The oil and gas industry, airlines, and the financial industry have all seen significant deregulation. Some Crown corporations have been sold as well. The foreign investment review agency has been abolished and replaced by the more positive mandate given to Investment Canada.

These policy changes indicate clearly that the Canadian government recognizes that Canada is a full member of the growing global economy and as such cannot be isolated from international markets.

Canada is now embarked on what is directionally the most significant deregulation step of all—free trade. This step is important both for Canada and the United States.

Canada and the United States as sovereign nations are the largest trading partners in the world today. Last year, the total trade between the two countries was $165.6 billion. This country exported $88.2 billion in goods to the United States while importing $77.4 billion, producing a trade surplus in Canada's favour of $10.8 billion.

It is interesting to note that 73 per cent of Canada's total exports went to the United States but these only represented 17 per cent of total U.S. imports. With the removal of tariffs, Canadian industry would have an opportunity to increase its share of the U.S. market, the largest market in the world.

What an opportunity!

Neither country can afford to risk the relationship in an international trading environment characterized by increased competition and protectionism. It is only natural then that these two nations should enter into a bilateral trade agreement free of tariffs and barriers in which each country may prosper. The free trade agreement, in establishing the rules for cooperation over the long term, does just this.

But free trade is more important, and more difficult, for Canada as the smaller of the two trading partners. In any free trade agreement it is the smaller nation that has the most to gain. After all, gaining access to a market of nearly 242 million people is potentially far more valuable than gaining access to a market of nearly 26 million.

While benefits of free trade may favour the smaller partner, a disproportionate amount of change and adjustment also becomes necessary. I believe it is the recognition by some, and the fear of others, respecting such change that generates, in part, opposition to free trade.

Lord Macaulay, British historian and statesman of the early 19th century, wrote, "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." This unpopularity may be explained at least in part by a statement some 100 years later by the economist W. Arthur Lewis, who wrote: "Painful transitions are inherent in the transformation of a society from one way of life to another; they cannot be altogether avoided except by avoiding change itself."

The free trade agreement as now proposed may be justly claimed as an opportunity of historic *importance*. On three previous occasions over the past 130 years—the 1850s, 1911, and during the 1930s—efforts to establish a free trade agreement have failed.

But a lot has happened since. World trade has shifted progressively to trading blocs such as the European common market. Some countries, including some elements within the United States, have responded to these developments with protectionist barriers and restraints.

Such barriers and restrictions to trade could choke international commerce and severely hurt Canada. The philosophy represented by this free trade agreement stands out as the soundest possible response to these negative forces.

While the details of the agreement are not fully developed, enough is known to make some key observations:

The agreement enhances the chances for continued progress in reducing tariffs and promoting trade liberalization at the next round of negotiations under the General Agreement on Tariffs and Trade.

The agreement is also an example to the world of the kind of sustained cooperation which can exist between nations and major trading partners. It is a model on which other countries and the international trading community can pattern future relationships.

It is my belief that the intent and design of the agreement deserve the full support of well-informed citizens on either side of the border. Clearly, its objectives are central to our long-term economic well-being.

Consider for a moment, the objectives of this agreement:

- to eliminate barriers to trade in goods and services;
- to establish predictable rules, secure access and fair competition;
- to reduce significantly impediments to cross-border investment;
- to establish effective procedures and institutions for the joint administration of the agreement and, even more importantly, the resolution of disputes between parties; and,
- to lay the foundation for further bilateral and multilateral cooperation to expand and enhance the benefits flowing from the agreement.

If implemented on January 1, 1989, when the free trade agreement will take effect, the two countries, basically, agree that all bilateral tariffs on goods meeting the rules of origin will be eliminated over a 10-year period. The higher the tariff, the longer the phase-out period is likely to be in order to allow those industries affected the maximum time to adjust to the challenges of lower prices.

The agreement stipulates that an independent binational panel consisting of two appointees from each country plus a fifth member to be selected by mutual agreement will examine any complaints or disputes about the implementation of the pact. And of great importance to both countries—and a point that Canada insisted on—the panel will make rulings in accordance with the trade laws of each country, *thus respecting the sovereignty of each nation.*

At any time throughout the period of the agreement, if either country is dissatisfied, then upon six months' notice either country can abrogate the agreement.

As you know energy is an important and controversial part of this agreement. This is how Canada's Energy Minister Marcel Masse describes the agreement: "The comprehensive free trade agreement will expand opportunities available for economic growth in both countries. It will also bring predictable and impartial rules to the management of our vital trading relationship. This will assure consumers and producers that governments of our two countries, in the future, will refrain from restrictive actions affecting trade."

The free trade agreement is a natural extension of the deregulation of Canada's oil and gas industry. The removal of the surplus test restrictions on natural gas exports was just about the final operational deregulation of the industry by the federal government that began with the signing of the Western Accord.

The agreement assures the freest possible bilateral trade in energy between Canada and the U.S., including secure market access for Canadian energy exports.

The agreement is not a continental energy policy implying Canada and the United States would adopt one energy policy for both countries. By no means is this so.

Let me stress that nothing in this agreement says Canada must sell any form of energy to the United States; it means only, if we choose to sell energy, no barriers will limit access to the world's greatest energy market to our south.

If a shortage arises, Canada is committed to providing its *existing* customers in the United States with "proportional access" to remaining supplies. This is no more than good business practice and is similar in nature to undertakings Canada has made already through its membership in the International Energy Agency.

There are many good reasons why free trade in energy is critical for Canada. I'd like to focus on four of the most compelling:

- Canada, among industrialized countries, is unique as a net exporter of all forms of energy—oil, gas, petroleum products, coal, uranium, and electricity. In 1986, Canada exported about $10 billion worth of energy. Net energy exports were almost $7.8 billion. The energy trade balance made up about two-thirds of Canada's entire trade balance. *Obviously*, energy exports are critical to Canada's economic well-being.
- Among Canada's export industries, energy represents a particularly exciting opportunity for future growth. This industry could be one of the few industries with markets for everything it could produce. That is not true now, and without the free trade agreement, it probably will not be true in the future.
- The United States represents the only international market available to us for some forms of energy—natural gas and electricity in particular. The alternative to exports is to leave gas undeveloped in the ground and electrical generating capacity underutilized on virtually a permanent basis.
- We have an important transportation advantage in some U.S. markets. Those are the four most critical points.

From the petroleum industry standpoint, the agreement also provides welcome assurance that Canada's policy environment will not be subject to extreme swings in the future.

However, let us be clear that a free trade agreement in and of itself will not assure us of growing markets and continuing prosperity. The agreement has not repealed the law of supply and demand.

From a supply perspective, Canada has about one-quarter of the oil reserves and half the gas reserves compared to the United States. These numbers may sound small to those accustomed to hearing Canada described as a vast storehouse of energy. Yet this apparent paradox is resolved by the distinction between resources and reserves. Hydrocarbon resources of a nation are the amounts present within its borders. Reserves are that part of the resource delineated, which may be commercially produced using existing economics and technology.

I say *may* because converting resources to reserves requires investment. Canada's hydrocarbon reserves are large. Its resources are immense. Without investment, however, these resources may never be anything more than minerals in the ground.

As economic conditions become more favourable—or as technology changes—ever greater amounts of resources may become reserves with the key catalyst, investment.

Export markets help finance the cost of large, capital-intensive projects which could not be supported by the domestic market alone.

It is one of the most basic tenets of economics that investment is critical to economic growth. The importance of the oil and gas industry is nowhere better seen than in its share of total capital investment in this country, which has ranged between 11 per cent and 12 per cent historically.

The next generation of investments in this industry will tend to be large, risky and capital-intensive, such as the so-called megaprojects symbolized by offshore frontier developments and tar sands plants in Western Canada.

Assurance of market access and an open investment environment remove the two great uncertainties today blocking such projects. The basic economics, of course, must still be right for these projects to proceed—that is, prices, costs, and taxes—but the industry has *always managed* these normal business components.

Now let me return briefly to the subject of regulation. The deleterious effects of regulation hold not only on an international level, but also within our own country. Just as the nation must adjust to new ebbs and flows in the world economy, so the provinces should adjust and not impose measures at variance with these same changes.

There is an inconsistency between the many economic barriers and restrictions that exist within the country and the international deregulatory moves we have been discussing. These must be remedied if the country is to rally its full potential strength in the serious business of world economic competition.

In conclusion, let me reiterate that competition is the driving force behind deregulation and free trade. We believe in competition and therefore free trade. Fewer restraints, and less regulation, increase our productivity, thereby enhancing our world competitive position. Canada has some very large and world-class competitors out there. And if we are to assure our share of growth and national prosperity in the future, we must accept the fact that there are real challenges ahead.

Ladies and gentlemen, 30 years ago Canadians argued the merits of another unusual opportunity—the building of the trans-Canada natural gas pipeline. At that time, fears were expressed about its real intent, its viability, and its ultimate benefits. Few today would question the wisdom of the decision to proceed then.

In a day and age when the world's largest antagonists—the U.S.S.R. and the U.S.A.—can develop a treaty to cooperate on helping to preserve peace, surely Canada and the U.S.—its friend, neighbour, and largest economic partner—ought to be able to conclude an arrangement which makes their respective economic futures brighter and more secure.

We urge that Canadians in all parts of the country study the proposed agreement carefully and assess for themselves the strengths and weaknesses. Canada has a great future. The issue is: what will it be? Canadians now have the opportunity to choose.

Ladies and gentlemen, thank you very much.

The appreciation of the audience was expressed by Henry N.R. Jackman, a Past President of The Club.

The Hon. David Peterson

Premier, Province of Ontario

A CANADA-U.S. FREE TRADE AGREEMENT

November 4, 1987

At a joint meeting of The Empire Club of Canada
and The Canadian Club of Toronto

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Ronald Goodall

The issue of free trade, it seems to me, has been before us for over 100 years, since the days of reciprocity. It is an issue that helped topple one Canadian government. It is an issue today that many view as the most important issue to be decided by Canadians since World War II.

Some argue that Great Britain's current industrial success is an example of the benefits arising from a free trade arrangement, the European Economic Community. Some argue that Canada's future industrial success would arise from revisions to the General Agreement on Tariffs and Trade rather than from a free trade arrangement. Some argue that the natural trading routes for Canada are north to south and that access to a huge market to the south cannot help but present the opportunity for wealth. Some argue that south to north trading routes would result in the establishment of foreign-controlled enterprises responding more to foreign political influences than to Canadian economic conditions. Some are concerned that the perceived preferable lifestyle north of the border would disappear with the adoption of different trading patterns and the adoption of an eventual political unity.

The free trade proposals appear to present more benefits to some provinces than to other provinces. Provincial ambitions could divide the country. Ontario has historically placed federal unity before provincial ambition and we have confidence, Sir, that Ontario's influence will mend potential provincial divisions.

This is not the first time that the Premier of Ontario has addressed this audience on this issue. Indeed in 1985, you concluded: "Just as in Robert Borden's day, the issues we are dealing with will shape the future destiny of this country. Securing the kind of future we want will require a tough fight. But Canada is worth fighting for."

The arguments are now being debated loudly and the arguments are many. I sense the fight continues.

Born in Toronto and raised in London, Ontario, the Premier earned his Bachelor of Arts degree in philosophy and political science from the University of Western Ontario and went on to the University of Toronto, completing his Bachelor of Laws degree. After articling in Toronto, he was called to the bar but subsequently assumed the presidency of his family's electronics business.

Elected member for London Centre in 1975, Mr. Peterson won the leadership of the Ontario Liberal Party in 1982 and initiated programs of reform. He campaigned on a pledge to form an open government which is truly representative of all people.

Mr. Peterson led the Ontario Liberal Party to victory in the 1985 and 1987 elections and has become Ontario's 20th premier.

Mr. Peterson is married to the former Shelley Matthews and they have three children.

Ladies and gentlemen, it is with great pleasure that I present to you today the Hon. David Peterson, Premier of Ontario, to address us on the proposed free trade agreement.

David Peterson

I'm always delighted to address The Empire Club and The Canadian Club—but never more so than today, when Canadians must have the opportunity to consider all points of view on the preliminary free trade agreement.

In debating this issue, we must reject any attempt to turn province against province or region against region.

I find it ironic, and sad, that some people who claim this agreement would lead to a stronger Canada would make their argument by tearing at the fibre of our national unity, and appealing to sentiments of envy, or historical resentment.

Canadians from coast to coast and every walk of life have the right and the responsibility to debate this deal in the fullest detail. And they have the right to demand that the debate be carried out without impugning the motives or questioning the good faith of any province, region, or individual.

Those who oppose this deal are as concerned about

Canada and its future as those who support it. That cannot be questioned. This issue must be decided on its merits. It is too crucial to be settled on the basis of a PR campaign that doesn't allow for serious national debate.

The proposed free trade agreement is as vital as any issue Canadians have ever dealt with. Future generations of Canadians will have to live with its consequences.

We are now past the time for theory and philosophy; the appropriate time for that would have been before negotiations began. Now, we must determine whether the deal would secure our access to the U.S. market, and whether it would allow Canadians to retain control of our own destiny.

It is important to recall why the federal government sought a free trade agreement with the United States in the first place.

When Prime Minister Mulroney asked the U.S. government to enter into negotiations, he made it clear that Canada's goal was secure and enhanced access to the U.S. market, to ensure that Canadians would be able to sell our goods and services south of the border.

Ontario supported this goal wholeheartedly. It was one of the six conditions we put forward three months ago. This deal, in our judgment, does not measure up to the goals of Ontario, or Canada as a whole.

Under this agreement, our access to the U.S. market would not be appreciably more secure than it was the day negotiations got underway.

According to proponents of the agreement, Canada's major gain is a new bilateral panel to review antidumping and countervail disputes. But as far as trade actions against Canada are concerned, the panel would only be empowered to determine whether they are consistent with U.S. laws and regulations. The panel would not be able to assess the fairness of any trade law; it would not be empowered to hear new evidence. It would merely replace the U.S. courts as a final forum to enforce the same trade laws that have been used against us in the past.

It is hard to see how this addresses our need for secure access. As the deputy chief Canadian negotiator said the other day, it is not the courts that have been the source of the protectionist problem. The problem is in the Congress which writes the laws, and will continue to write them; and the Commerce Department which applies the laws, and will continue to apply them. Under this agreement, U.S. trade laws could still be used to harass fairly traded Canadian products.

The agreement provides no assurance that Canada would be dealt with more fairly. Canadians may get the chance to examine the deck—but we won't be able to do anything about the fact that it's stacked against us. In a memo that became public last spring, U.S. negotiator Peter Murphy said a "face-saving device" was required to get Canada to sign an agreement. While this binational panel may save face for the negotiators, it does not save anything for Canada.

Tomorrow, our Minister of Industry, Trade and Technology, Monte Kwinter, will be releasing an independent legal analysis of the dispute-settlement mechanism. It will clarify what has been changed and what has not. The proposed dispute-settlement mechanism would do little to widen our options or reduce our risks. It would not have prevented the Commerce Department decision that led to a 15 per cent surcharge on Canadian softwood lumber. It would not solve the potash dispute, the pork dispute, or any other dispute in which we face protectionist pressure. It would not secure market access for a single Canadian product, nor improve job security for one Canadian worker.

If any free trade agreement was going to meet Canada's needs, as Prime Minister Mulroney told *The New York Times* on April 20: "The U.S. trade remedy laws cannot apply to Canada, period." Under this agreement, four of the five key U.S. trade remedy laws are unchanged—period. The only one that is affected at all is Section 201 of the U.S. Trade Act which allows for restrictions against fairly traded goods.

While there is provision for some exemption, the section could still be applied against fairly traded Canadian products once they have achieved significant penetration of the U.S.

market. For example, President Reagan's decision last May to impose stiff tariffs on cedar shakes and shingles would be allowed to stand under this deal.

The agreement does not deal with Section 301, which addresses violations of international agreements; nor Section 337, which addresses perceived violations of U.S. intellectual property law.

There are a number of misconceptions about what the deal does and does not do.

It does not change the application of U.S. antidumping law, which prevents Canadian companies from adjusting prices in response to market forces.

If a steel company in Chicago, for example, cuts its price, USX can stay competitive by cutting its own price in that city. But if a Canadian steelmaker tries to do the same thing, it would have to cut its prices all across Canada—or face a possible charge of dumping.

If you're making steel in Pittsburgh and you want to cut local prices anywhere in the United States, you can. But if you're making steel in Hamilton and you want to cut local prices to compete, you can't.

This deal would do nothing to change that—for steel, potash, or any other Canadian export.

Under this agreement Canada would not be exempted from U.S. countervailing duties. Indeed, the agreement specifically ensures that the softwood lumber agreement is not affected.

As Simon Reisman stated last March: "Any agreement which did not restrict the use of U.S. dumping and countervail statutes . . . would not be worth the powder it would take to blow it to hell." I agree.

What then is this agreement worth, when those statutes have not been changed?

We can take little comfort in the vague, general language of the so-called standstill provision which calls for both sides to exercise discretion, and take into account each other's interests in the use of any export subsidy on agricultural goods.

The United States has already run counter to the spirit of that provision by offering heavily subsidized farm products to Russia, China, and India—products which Canadian farmers used to be able to sell. Indeed, the U.S. has also breached the standstill commitments made at the Shamrock Summit, and the Uruguay Round of GATT. What's fair is what the U.S. Congress says is fair—and that keeps changing.

Any U.S. trade legislation passed before the implementation of the free trade agreement would apply against Canada as much as against any other country—free trade deal or no free trade deal. Even after the free trade agreement took effect, all Congress would have to do in order to make a new antidump or countervail restriction apply against Canadians is name Canada in the legislation, and it would block Canadian goods as much as goods from any other nation—free trade deal or no free trade deal.

Canadian industry and workers would be asked to go through tremendous dislocation in order to become more competitive in the U.S. market. But without a meaningful guarantee of secure access, the more successful they are in reducing the costs of production, the more vulnerable they would be to U.S. protectionist action.

Clearly, Canada failed to gain what we sought to gain. We failed to obtain secure access for our goods. We also failed to improve our access to state procurement, and defence procurement. And worse, we left ourselves with little leverage to bargain in the future.

The agreement provides for further negotiations over five to seven years to change Canadian and U.S. trade laws and agree on definitions of acceptable subsidy practices.

There is no reason to believe that it will be any easier to negotiate an agreement five years from now than it is today. Putting off tough decisions does not make them any easier.

We can obtain future concessions from the United States only if we are prepared to offer some, beyond what we have already given up in this agreement.

What does Canada have left to trade away? The game is only half over, and the federal government has given up most of our bargaining chips.

Before negotiations even got underway, they eliminated the National Energy Program and the Foreign Investment Review Agency—without even asking the United States for a single concession in return. While negotiations were still on, they moved ahead with the pharmaceutical bill. They gave away a lot in the agreement itself.

They gave away some of our devices to preserve Canadian culture, such as postal subsidies for the Canadian magazine and periodical sector. They gave away our ability to pursue an independent energy policy. Even in the case of a Canadian supply shortage, exports could not be controlled to meet domestic needs. U.S. and Canadian customers would have to share any shortfall proportionately.

Under this agreement, tariffs would be eliminated simultaneously in both countries, despite the fact that Canadian tariffs start at a higher level. The United States would be the big winner, and we would bear the brunt of the adjustment burden. Even Donald Macdonald, a strong advocate of free trade, said that it would be necessary to reduce U.S. tariffs either at a faster rate or earlier than Canadian tariffs in order to meet our adjustment needs.

By eliminating all tariffs, they undercut incentives for auto companies to comply with the Auto Pact. In the past, we have used the tariff safeguard as a lever to require auto companies to increase their investment in Canada. In 1980 and 1981, for example, we used the Auto Pact commitments to get Chrysler and American Motors to modernize and expand their Canadian operations.

Because of the elimination of Canadian value-added requirements, there would be less incentive to locate assembly plants in Canada. Parts producers need to be near assemblers. Parts companies may find it more attractive to locate in the United States to reduce transportation costs and meet delivery deadlines. The CEO of Canada's largest parts manufacturer, Magna International—which employs 10,000 Canadians—said last week that if this deal goes through he would be better off expanding his operations in the United States than in Canada.

The federal government gave away the option of extending Auto Pact status to offshore companies—even if they meet the same criteria as U.S. companies. Canada would thus be deprived of an important industrial tool, and could become a less attractive site for third-country investment.

Ironically, the federal government which cooperated with us to attract Japanese assembly plants to Canada has now severely limited our ability to expand those facilities and attract new ones. We would risk losing high value-added work to the United States.

Under this deal, we would be giving away an important lever to manage our auto industry, and leaving it open to multinationals to decide what is best for the Canadian industry. Given the auto industry's enormous spin-offs, the effects would be felt in every part of this nation.

Today, Canada has a healthy auto industry. But who can predict when there will be a downturn in markets? When it is time to decide where to cut investment and production, do we want all of the decisions to be made in Detroit, with few safeguards for Canada?

The federal negotiators gave away most of our ability to ensure that Canada benefits from U.S. investment, and proposed foreign takeovers of Canadian-owned firms. Foreign ownership and control—mostly American—already prevails in about half of our manufacturing, and about three-quarters of the higher value-added sectors.

Of the top 500 firms in Canada, 207 are Canadian-controlled. Currently, a foreign takeover of any of these companies could be reviewed. But under the free trade agreement, by 1993 it would no longer be possible even to examine the takeover of 40 per cent of them—representing assets of $6.2 billion, sales of $16.1 billion, and jobs for 86,000 Canadians. Many of our largest Canadian corporations, with the potential to significantly improve our ability to sell goods and services on the global market, would be vulnerable to foreign takeover with no opportunity for review.

This deal gives away Canada's right to examine takeovers of major companies that help set our economic direction, and some of our most strategically important companies—including almost the entire high-tech sector. In all, only 500 companies would be considered large enough to warrant a takeover review—as opposed to 7,000 today.

Ironically, Canada would be substantially reducing its ability to screen foreign investment at a time when takeovers are on the rise and becoming a concern of every developed nation—including the United States.

We can't blame the United States for looking for gains in any deal. But what does Canada gain?

Estimates of potential gains and losses in jobs have varied widely. The gains are based on the assumption of secure market access—a seriously flawed assumption in light of the actual provisions in the agreement.

Further, the high level of U.S. ownership and control of companies in Canada could hinder Canadian penetration of the U.S. market. Would branch plants be given free rein to compete with their parent companies? For that matter, would they even be kept in Canada once all tariffs are eliminated?

There are a number of questions about the potential benefits. But there is no question that there would be considerable dislocation. The federal Employment Minister recently predicted half a million Canadians could lose their current jobs. Dealing with dislocation of that magnitude would be difficult in the best of times. How would we do so in times of economic uncertainty?

The proposed free trade agreement almost seems to have been negotiated on the premise that the first half of 1987 would last forever. It seems to be based largely on what Canada can afford to accept in good times. If we are to have a free trade agreement, it must serve our needs at all times.

Proponents of free trade acknowledge that Canada would go through a significant period of adjustment. It is one thing to do that in a time of prosperity—but what if there is an economic downturn?

When the decisions that determine our future are made, we want to make sure that we are able to make them in Canada, not just leave it to board rooms in New York or Detroit or Washington. We want to make sure that the crucial choices are made by Canadians whose bottom line is the future of our country.

That's what sovereignty is—the ability to decide what's right for us. Sovereignty is the ability to decide how our natural resources should be managed, how our economy should be directed, and how to deal with change. Sovereignty, quite simply, is the ability to shape our own destiny. Our sovereignty is our most valuable asset.

Of course, we recognize the high degree of global interdependence. It's important that it remain and grow. Nor are we under any illusion that we can demand constraints on others without accepting constraints ourselves.

Thus, any trade agreement must be fair and balanced. Under this deal, Canada would achieve some gains—such as those for the petrochemicals industry. But it is clear that the gains would be far outweighed by the losses.

On this basis, I do not believe that the agreement presented to us is the right deal for Ontario, or Canada as a whole.

We need to ensure that Canadians can sell our goods and services in the U.S. market without being hamstrung by unreasonable protectionist measures. We need to be able to set our own course, and make our own decisions—about investment, energy, and other facets of our economy.

This deal is simply a bad deal for Canadians. No deal is better than a bad deal. We do not want our children and our grandchildren to be bound by a deal that was negotiated in fear and signed in haste.

Some people say that supporting this deal shows faith and confidence in Canada's competitive strength, while opposing the deal constitutes timidity. But surely they've got it backward. It is no sign of confidence to live in such fear of protectionist elements in the United States that we reduce control over Canadian resources, risk Canadian jobs in vital sectors, and give up the right to determine which investments are beneficial to Canada, all in the naive hope that the protectionists might exempt us from their measures—without a single assurance or guarantee.

It is no act of faith in Canada to say that we are so weak, so vulnerable, that we can survive only if we surrender much of our sovereignty and our ability to direct our own economy.

Canada has the resources, the know-how, the industrial base and the talented work force to compete anywhere in the world—not just in North America. We must use our assets to become a stronger international trading nation, not an economic dependent huddling under the American umbrella.

There is no reason to believe that Americans can create more opportunity in Canada than we can create ourselves.

We must rededicate ourselves to a vision that says all things are possible for Canadians if we maintain our capacity to shape our own destiny. That capacity includes our right and responsibility to decline a deal that does not meet our needs. Canada is possessed of enormous potential. But we can realize it only if we retain the sovereignty to decide what is right for us, and the confidence to pursue it.

Sonja Sinclair

One of many advantages of belonging to one of our clubs is the opportunity to hear a variety of opinions on topics of national and international importance, so that we can make up our minds where we stand.

During the past few weeks we've heard a number of speakers extol the advantages of free trade. I don't know about you, but personally I felt it was high time we heard the opposite point of view. And I am sure everybody here will agree that we couldn't have hoped for a more knowledgeable or more persuasive spokesman for that point of view than Premier Peterson.

I suspect that, had we taken a poll at the beginning of today's meeting, the verdict would have been overwhelmingly in favour of free trade. I am not going to ask for a show of hands but I suspect that, after listening to our guest speaker, the vote would be substantially different.

Thank you, Sir, for being with us and for presenting such a factual, eloquent, convincing case against the free trade agreement. You have provided us with much food for thought, and for this, we are truly grateful.

Frank Shrontz

President and Chief Executive Officer
The Boeing Company

FREE TRADE AND THE AEROSPACE INDUSTRY

November 5, 1987

Chairman: Ronald Goodall, President

Ronald Goodall

Daedalus started it all years ago when he fashioned those wings of wax for himself and his son Icarus to use for escape from Minos. Icarus flew too close to the sun but at least Daedalus made it to Greece in safety.

The idea of jet-propelled travel was conceived 382 years ago this day, November 5, 1605, when Guy Fawkes placed all that gunpowder beneath the House of Lords in London intending to give those parliamentarians a short flight. Sometimes I wonder if Guy Fawkes' theories may yet be tested on another upper house this time in Ottawa.

In 1783, the Montgolfier brothers in France invented the first practical balloon, a large linen bag inflated with heated air, which flew for 10 minutes.

These inventions and ideas were put together by engineers and the jumbo jet was invented.

That's not really true, of course. We accountants do sometimes get things a little mixed up. But many of us readily connect the name The Boeing Company with jumbo jets, although today some of us will be remembering Boeing's Flying Fortresses in World War II.

The Boeing Company is one of the oldest and largest aerospace companies in the world. Revenues exceed $16 billion and result from sales of jetliners with the familiar names of 737, 757, 767, the omnipresent 747, and now, with the acquisition of de Havilland Aircraft of Canada, the Dash 7, Dash 8, and the Twin Otter.

The company participates in military and space programs which include the all-service V22 tilt-rotor aircraft, the hard mobile launcher for the small ICBM, the short-range attack missile, airborne early warning systems and the U.S. air force advanced tactical fighter.

Revenues come also from computing services and electronics systems used in the development of an advanced solid state digital flight data recorder and of innovative applications employing artificial intelligence, exploration of robotics, voice recognition and machine vision systems.

The Boeing Company certainly appears to be a company which knows its business, excels at it, and in its community endeavours is a good corporate citizen.

Frank Shrontz was born and raised in Boise, Idaho. He earned a Bachelor of Laws degree at the University of Idaho and an M.B.A. degree from the Harvard Graduate School of Business Administration. He was also a Sloan Fellow at the Stanford Graduate School of Business Administration.

Mr. Shrontz joined Boeing in 1958. In 1973 he entered the United States government service and was appointed assistant secretary of the air force for installations and logistics. In 1976 he became assistant secretary of defence. Mr. Shrontz rejoined Boeing in 1977 as corporate vice-president in charge of contract administration and planning and for the next four years was vice-president/general manager of the 707/727/737 division of Boeing Commercial Airplane Company. He became vice-president, sales, and then served as president of that company until he became President of The Boeing Company in 1985. He was elected Chief Executive Officer of The Boeing Company in April 1986. We understand from *The New York Times* that Mr. Shrontz is to become chairman of the board at year end. Mr. Shrontz is a member of the boards of directors of Citicorp and The Business Council. He is active in a number of civic and charitable organizations.

He and his wife, Harriet, have three sons.

Ladies and gentlemen, it gives me great pleasure to introduce to you Frank Shrontz, President and Chief Executive Officer of The Boeing Company, who will address us on "Free Trade and the Aerospace Industry."

Frank Shrontz

I'm indeed honoured to have been offered the opportunity to address this distinguished group. I admit to being somewhat taken aback when I learned that you had heard from Barber Conable, Clayton Yeutter, and Simon Reisman . . . all in the past month. That is intimidating company, and it clearly demonstrates the esteem The Empire Club of Canada has won over its long history.

This afternoon I would like to offer some thoughts on the issue of free trade as it applies to my area of expertise, the aerospace industry.

In the broader context, however, I must emphasize that we at Boeing are firm supporters of the landmark trade agreement between our two nations, an agreement we hope will be ratified to become the prototype for a world largely free from trade and tariff barriers. The concessions from both sides of the border that made this agreement possible demonstrate the ground swell of a growing understanding that the United States and Canada are merely two parts of an immensely complex and competitive world economy. To thrive, we need access—equal and unrestrained access—to each other's markets.

For we could be on the verge of creating the world's largest free market—$135 billion in goods and services, 75 per cent of it tariff free, crossed our common border last year alone—a market larger and in some ways freer than the 12-nation European Community.

Now I admit to bringing a distinct perspective to this subject. Manufacturers of commercial airplanes traditionally have relied on open international markets. Over the past five years, for example, roughly 63 per cent of Boeing jetliner sales have been outside the United States. Between now and the turn of the century, about $125 billion worth of business will involve customers outside the U.S.

Here in Toronto, de Havilland has been even more dependent on open markets, selling some 90 per cent of its airplanes outside Canada. That percentage recently has dropped into the 50 per cent range as Canadian carriers snap up the new Dash 8 model, but in the future we expect to see foreign customers again account for the great majority of de Havilland's sales.

Our specific situation in commercial aircraft manufacturing also may be unusual because free trade between our two nations has been a fact of life in the aerospace industry. We are to a great extent compatible and not competitive.

Our Boeing jetliners, for example, do not compete with Canadian products, while your Canadian companies compete quite successfully against other potential suppliers to provide major components for our airplanes. Moreover, de Havilland and Boeing of Canada are full partners in our entire engineering process—technology is transferred both ways quickly and productively.

In these respects, I recognize, aerospace differs from certain other industries—wood products, petroleum, or banking, for instance. But the chill emanating from the world's stock markets over the past few weeks has given us all a clear and immediate indication of our worldwide interdependence.

In this context, a few perceptive observers have reminded us that one major contributor in transforming the market crash of 1929 into the Depression of the 1930s was the wave of protectionism touched off by our American Smoot-Hawley Tariff. The last thing we need today is a repetition of that terrible spiral from market turmoil through protectionism to recession. Especially in these difficult times we must look beyond individual, short-term advantage to the long-term, widespread benefits made possible by our mutual trade agreement.

Another, perhaps equally profound, revolution is taking place in Canada today. I'm referring, of course, to the move toward privatization that we at Boeing have played a small role in moving forward.

Boeing's role, of course, centres on de Havilland. A few comments might be appropriate on why we felt a merger of interests between de Havilland and Boeing would be mutually beneficial.

De Havilland of Canada has always had a proud tradition of quality products. The first examination we made in considering the acquisition of this company was the design standards employed in developing the DHC-8 turboprop. Boeing was very pleased with what our experts found in the performance, safety and reliability of this and the other de Havilland airplanes. We are also proud of our technical achievements, and so our cultures are very compatible in that respect.

Second, Boeing does not manufacture an airliner with fewer than 100-plus seats. The de Havilland Dash 8 series at between 30 and 60 passengers fits well into an integrated product line. Further, there is a growing affiliation of the commuter airlines in much of the world—which operate de Havilland airplanes—with the larger trunk carriers which represent the customers for Boeing jetliners. Accordingly, an integrated strategy can benefit both of us for what appear to be substantial market opportunities. Clearly, to realize these mutual benefits, cost competitiveness is crucial.

In line with your government's privatization goals, we expect de Havilland to become a competitive enterprise and a substantial contributor to the Canadian economy, not a drain on public-sector resources.

A key step in that process came in September when we reached agreement with the Canadian Auto Workers on a new three-year contract. That settlement will allow us to work more productively, and established the basis for better working relationships between the organized employees and de Havilland management. Based on my reading of your local papers, however, I am led to believe that we did not entirely succeed during these negotiations in convincing Mr. White of the benefits of free trade.

We are committed to helping make de Havilland a fully competitive member of the international aerospace industry. De Havilland products, particularly the Dash 8 turboprop, are superb—our challenge is to produce them at a cost that will enable de Havilland to compete profitably. At this point, we believe that is possible, and we are backing our belief with substantial investments.

There have been allegations that in this endeavour Boeing plans to install "U.S.-style" management systems and processes at de Havilland—and the assumption seems to be that this would be bad and Canadian workers would suffer. To transpose intact the large and complicated control systems for jet aircraft manufacture to a smaller operation in a different country would be suicide—and we don't intend to do that. Boeing does plan to install some of the design and production techniques that have worked well for us, those which we believe will help increase de Havilland efficiency. We will make these improvements with every regard for the pride and well-being of the de Havilland work force.

I might add that we are learning from our Canadian partners as well and that further productivity improvements on both sides of the border are key to our mutual success and survival. Our international competitors in the world market are certainly making cost improvements at a fast pace, and improved efficiency is absolutely crucial to preserving the way of life as we've known it all across this great North American continent.

While de Havilland's size makes it the centrepiece of our present Canadian operations, Boeing and Canada have been linked for many years. Boeing of Canada is 27 years old. From a small facility at Arnprior near Ottawa with 67 employees and annual sales of less than a million dollars, it has grown to be the second-largest aerospace company in Canada with 7,000 workers.

Today Boeing of Canada's three operations—Arnprior, here in Toronto, and at Winnipeg—provide about three-quarters of a billion dollars a year to the Canadian economy. Its contracts with other Canadian enterprises provide additional jobs and income for this economy.

Last year Canada was among the major non-U.S. suppliers of goods and services to Boeing; close to 200 companies here are prime contractors, and hundreds of others subcontract to them. Over the past five years, Boeing has purchased nearly $370 million worth of goods and services from Canada, more than one-third of it from the province of Ontario.

We look forward to the possibility of increasing that figure substantially when de Havilland is operating more efficiently and is able to take on work related to our jetliners in addition to expanding its own product line.

As you are no doubt aware, McDonnell Douglas also imports from Canada. Like Boeing, McDonnell Douglas and Airbus Industrie, the European consortium, draw on the best suppliers wherever they are found. In fact, we live in the era of the "global aircraft"—just as the market is international, so is the manufacturing process.

On average, about 14 per cent of the value of a Boeing jetliner is produced outside the United States, and in some cases—depending on the airframe and engine combination—that figure reaches nearly 30 per cent. The same is true for both McDonnell Douglas and Airbus.

I should note that this applies to de Havilland products as well, for they incorporate parts from as far away as Korea. About two-thirds of each Dash 8 is Canadian content.

I am convinced that this internationalization of the industry will increase, not decrease, in the future. Given the magnitude of the resources required to launch a commercial airliner, teaming arrangements probably will almost universally characterize new programs. These arrangements also are attractive in that they allow manufacturers to spread the market risk that attends each new model.

Thus free trade in our industry makes sound economic sense. But only when it is complemented by *fair* trade.

Today, governments sometimes assist manufacturers by providing below-market-rate financing for customers. Thus buyers of airplanes, whether Dash 8s or 767s, often reach purchase decisions based on the financial inducements offered by the competing manufacturers and their government backers. We believe these purchase decisions should be made on the basis of the technical and long-term economic merit of the product itself.

So we'd like to see consistent financing procedures established worldwide. Progress is being made in this arena; but in the meantime it is vital that de Havilland can rely on the support of the Export Development Corporation to counter foreign competition.

Similarly, both Boeing and de Havilland compete on price with heavily supported manufacturers, commercial aircraft makers whose governments have committed far more national resources than we can command. Most of de Havilland's major competitors are government-owned or assisted, and we at Boeing face a jet aircraft competitor financed by several European treasuries.

We are not unalterably opposed to all forms of government support, particularly during periods of transition when an industry is attempting to cope with new and hostile environments or when trying to enter a new market.

Over the long term, open-ended support for the development of aircraft and other capital products distorts the market by allowing the subsidized manufacturer to price his products significantly below those of his competitors who must price their products to recoup development and production costs, support new product development, and provide a reasonable return for investors.

In fairness, therefore, we believe it's necessary to have market rules. As a private company we clearly would prefer the absence of government support. Given that subsidies do exist today, we would like to see the aircraft industry moving in a direction that will lead, ultimately, to a subsidy-free environment where innovation and enterprise determine success or failure.

In the past few weeks it would appear that some progress is being made on this issue.

Ambassador Yeutter and members of the European Community have established an agenda for further negotiations to "foster a more favorable environment for civil aircraft trade and to reduce trade tensions in this area." We hope that these continued negotiations will lead to the resolution of the difficult and long-standing differences on these issues.

Perhaps we can finally look forward to the *fair* trade that should accompany the relatively free trade in our industry.

I think it is clear that free trade, even in a single industry, is not without its complexities and pitfalls. And that free trade brings with it the attendant challenge of competition. I do not believe, however, that over the long term any manufacturer, any industry, or any nation can avoid that challenge.

Our countries, through this remarkable trade agreement, have taken a major step toward meeting the demands of the future. Much remains to be done, and the next few months will be searching and trying times for both nations. But I believe we have embarked on a venture with incalculable long-term benefits for us all and I fervently hope for its success.

Thank you again, President Goodall, for the opportunity to discuss these important issues in such a distinguished forum.

The appreciation of the audience was expressed by Catherine Charlton, a Past President of The Club.

Richard J. Schmeelk

Senior Executive Director
Salomon Brothers Inc.

NORTH TO CANADA: AN AMERICAN INVESTMENT BANKER LOOKS AT CANADA TODAY

November 12, 1987

Chairman: Ronald Goodall, President

Ronald Goodall

As we sip our coffee this lunch time, we should reflect. After all, if it were not for coffee, we would not be here today.

Coffee was introduced to London, England, from the Middle East in 1652. Coffee houses then appeared in London with each coffee house attracting a special group of customers. They became centres for spreading news and political gossip, and centres for specific trade purposes. One London coffee house was owned in 1688 by an Edward Lloyd. Shipping and insurance men gathered there and the marine insurance industry came into being. Jonathan's Coffee House attracted brokers and eventually became the place for trading securities of governments or securities of the joint stock trading companies. The stock exchange, with traders and members, came into being.

In 1711, the South Sea Company was incorporated and issued a prospectus which defined the purpose of the company as, "A company for carrying on an undertaking of Great Advantage, but no one to know what it is." The South Sea Bubble and the first Black Monday shortly followed.

In 1910, America's biggest investment bank, Salomon Brothers, recently labelled by *The Economist* as "leader of the bond," originated as a money broker. Over the years, the firm has earned revenues from issuing, trading and distributing securities. In 1986, the firm lead-managed 452 corporate issues worth $51.8 billion U.S. and managed or co-managed 764 issues worth in excess of $100 billion U.S. The total volume of purchases and sales of securities in that year approximated $4.4 trillion U.S.

The firm is a serious competitor in the global financial market, a 24-hour-a-day market, serviced by offices in London, Tokyo and New York.

A lot of coffee must be consumed in these offices!

Richard J. Schmeelk served with the U.S. navy submarine service in the

Pacific before joining Salomon Brothers in New York in 1946. He was appointed manager of the Canadian department in 1956, admitted as a general partner in 1966 and appointed to the executive committee in 1973. In 1986, he retired from his position on the executive committee. The financial press included Mr. Schmeelk in a list of the 100 highest-paid people on Wall Street in 1986, a list titled, "Wall Street's Superstars," and recorded that, as head of corporate finance, Mr. Schmeelk helped Salomon Brothers become the leader in corporate underwritings.

A past American co-chairman of the Canadian-American Committee , Mr. Schmeelk is a member of the executive committee of the National Planning Association. He serves on the board of the America's Society, and the British-North American Committee. He is also vice-chairman on the board of governors of the United Nations Association, chairman of the Covenant House Endowment Fund and serves on the board of Covenant House.

Our guest has a fondness for Canada and established a Canadian scholarship foundation for the purpose of creating a better understanding between English and French-Canadians and fostering a better understanding between business and government.

Mr. Schmeelk is a family man and I am delighted that one of his eight children, Garrett, has joined us here today.

Sir, I understand from your colleagues—and I have no reason to doubt their words, so far—that your retirement from Salomon Brothers was prompted by some suggestion from Masters tennis champion Ken Rosewall that you spend more time with him playing tennis on world tours. You have a reputation as an avid tennis player.

History repeats itself and I shall repeat the words recorded in The Empire Club 1936-37 yearbook as then-President, Major Gordon B. Balfour, K.C., introduced the guest speaker, tennis champion Fred Perry: "The Empire Club of Canada is delighted today to welcome to its meeting those who take a prominent part in the game of tennis."

Ladies and gentlemen, I have great pleasure in calling on Richard. J. Schmeelk, a senior executive director of Salomon Brothers Inc., to address us on "North to Canada: An American Investment Banker Looks at Canada Today."

Richard Schmeelk

I am very grateful to The Empire Club for allowing me to visit here today with so many old friends and competitors whom I have shared my life with these many years. Today, there are also memories of many great Canadians who are no longer with us whose friendship and wisdom I will always cherish.

Speaking of competitors and sharing, just recently three

Canadian competitors and four of us in the United States donated blood to the British Red Cross and are now awaiting knighthood from Mrs. Thatcher's government.

My involvement in Canada began in the 1950s.

On my very first trip disaster struck. I had just been appointed the guardian of our commercial paper operations in Canada. I had a little black book listing all the maturities coming due with various institutions. My job was to visit Mr. Smith or Garneau, or whoever, carefully noting the date of maturity and see if they would roll over their outstanding paper.

Well, I was on a bus between Hamilton and Toronto, or Stelco and Inco, and I lost the little black book which was really the only decent record we had. I can still remember the panic I felt as I thought the trip would be my first and last to Canada. Little did I know of the long lifetime involvement that lay ahead. These were the days before investment bankers discovered stretch limousines and fine wines. Now that investment bankers will be back on the buses again, if any of you should be travelling between Hamilton and Toronto, I would appreciate your looking under the seats and returning the book if you find it.

Let me spend a few minutes looking back at the Canadian financial scene of my early years.

In the '50s, there was a gentleman in Montreal named James Eccles. He worked alone with a secretary and handled short-term investments, and pension funds for many of your largest institutions. At that time there was no treasury bill market, no liquidity in short-term securities and very little liquidity in Canadian bonds other than the Government of Canada.

The staffs of corporate treasurers were practically nonexistent, as they were in the U.S., and other than occasional borrowings, life moved at a very slow pace, contrasting the vigorous management of corporate assets and liabilities that exists today.

In the late '50s, some interesting leadership developed in the Canadian financial community. Manufacturers Life and

Sun Life traded their portfolios, taking profits and losses and swapping securities in the marketplace based on their spread relationships. They were soon followed by other Canadian companies and eventually it spread to the United States. The Canadians discovered matrix trading.

These companies were very important in the development of Salomon Brothers as they provided market depth, sensitivity and intelligence to our trading operations.

Our investment banking expertise was built on our trading and marketing ability and as we moved into the mid '60s, Salomon was able to parlay this strength into helping Canadians raise capital. Truly investment banking at Salomon started in Canada; as we moved into Europe and other markets, we built off the Canadian model.

Along with my partners—John Wiley, our first Canadian partner; Jim McKay; and later Peter Gordon, our second Canadian partner—we struck a little terror into the hearts of our competitors, as we became bankers for a host of provinces, municipalities, Crown corporations, corporations, and eventually the Government of Canada.

This period was both the most satisfying and enjoyable of my long career. We didn't think about it at the time, but one might say by changing the establishment we brought about a form of deregulation which indirectly helped to make Canadian firms more competitive.

During the late '60s for several years Canada represented 30 to 35 per cent of our negotiated underwritings, a truly staggering amount. Canadian investment banks were the first international dealers in New York. Canada was the first nation to float its exchange rate. Further innovation was shown by another Canadian institution in doing the first interest-rate swap in the Euromarket. J. R. Timmins, I believe, was the first foreign firm to join the New York Stock Exchange. Other Canadian firms followed and actively distributed Canadian bonds in the United States and participated in many other areas of the securities business.

It is fair to say the Canadian and United States markets were insular to a large extent until the late '60s. Currencies other than the U.S. dollar and Canadian dollar held little or no interest to us. However, during the late '60s, Hydro-Quebec and Ontario became two of the five largest borrowers on the international markets. The Canadian internal markets simply could not accommodate the large demands of Canadian borrowers.

Both Hydro-Quebec and Ontario completed huge private placements in the U.S. along with British Columbia Hydro, taking advantage of a lull in borrowing by U.S. corporations brought about by a slow growth in U.S. capital spending.

Canadian borrowers established new markets around the globe and innovation in syndication as well. Bell Canada's multi-tranche equity offering was another first in international markets and was followed by another Canadian multinational—Alcan.

With the huge demands of Canadian borrowers, we and others spent a considerable amount of time bringing potential investors to Canada and Canadian borrowers to various parts of the U.S. Bonds of friendship, and valuable additional purchasing power were developed. Old bench marks of yield relationships were changed both internally and externally by aggressive marketing abroad.

So you see Canada did not take a back seat in financial innovation. In fact, quite the opposite, you were leaders.

There was another interesting development I noticed in discussions with my friends going back to the '50s. Canadians were much more interested in discussing events in the U.S. rather than Canada. I was, I thought, the unofficial U.S. Secretary of State in Canada constantly called upon to defend U.S. policies not always to my liking.

Most Canadians were unabashed free traders—close to the mother country and Europe—and voted the straight Democratic ticket, unofficially of course. When you brought up Canadian politics, Canadians seemed somewhat disinterested. Gradually in the late '60s, the dialogue changed to a heavy emphasis on Canada's problems and politics.

During the Trudeau era "the third option" was put forward in trade and, as we all know, it did not become a reality as trade continued to expand sharply between the giants of the north. French-English dialogue; east-west rivalry; the government's national energy policy; the federal-provincial dialogue regarding the Constitution and Confederation. Government business strains and other concerns preoccupied Canadians and the development of the Pacific Basin lessened somewhat the European connection, at least from a trade standpoint.

The two areas that were closest to my heart were French-English relations and, for a considerable period, the lack of a healthy dialogue between government and business. I viewed the resolve of both issues as paramount to Canada's well-being as a nation and for that reason I spent a good deal of time trying to be an honest broker on the subjects. To foster better understanding, I endowed a scholarship fund in Canada for those purposes.

Today, I am pleased to see that both areas have shown better progress. I am delighted to see the resurgence in the Quebec economy. I hasten to add that I take no credit for either development.

During my involvement in Canada, there have been various strains that have tested the bonds of friendship—interest equalization; U.S. attempts at imposing extraterritorial law; withholding tax; national energy policy; FIRA; Vietnam; potash; expropriation; the stumpage dispute; subsidies on both sides of the border; plus acid rain, and other areas of friction. Fortunately, the good sense of both countries usually wins out and I have always believed neither country tolerates fools for a prolonged period. The golden rule should be that neither country takes action that affects the other without serious consideration and consultation.

You have supported us at times when perhaps your heart was not in it 100 per cent.

We on the other hand gave you strong support as a nation when separatism threatened Confederation.

Through all these times, good and bad, the investment banker has the responsibility to keep his clients informed on market perception, country perception, and the availability of capital in international capital markets.

Let me talk a little about the role of a foreign investment banker specifically in Canada and as one who has represented several provincial governments of different political leanings.

As an investment banker, one's duty is to get the lowest possible borrowing cost for his client. The borrower's responsibility is to maintain the highest possible rating. I am referring to sovereigns, provinces, and municipalities.

You advise borrowers of various leanings, the consequence of certain actions in the marketplace, the constraints of the marketplace, and, of course, the marketplace is the ultimate discipline as to how well one conducts their affairs.

I have had some very frank dialogue with various government leaders over the years. I have tried to analyze and advise on the consequences of their action or lack of action as it would affect them in the marketplace, the effect on other government borrowers, on the private sector, foreign confidence, etc. How well I advised, I leave to the receivers to judge.

A good foreign investment banker must immerse himself in the affairs of a country, the politics, the economy, the financial strength, the regional differences, the people differences, and in the case of Canada must realize that Canadians are different and when you cross that long border, you are in a country with its own identity, opinions, and aspirations.

I will say that I received an insight into the many pressures imposed on government by conflicting interest groups.

While on the subject, let me say a word about relationships in banking. I grew up believing, and still believe, relationships are the most important thing we investment bankers have to offer; that you literally killed for your client; each deal deserved a 100 per cent commitment; you never took anything for granted. The confidence and respect of your clients determined your success and self-respect as an individual. Success was not measured in material terms. Now comes the day of instant short-term performance; certain exorbitant fees for bankers; and some clients foregoing a long relationship for a basis point or two; and some investment bankers hungry for fees forgetting about relationships.

I recognize the need to restructure in our world economies, that many mergers, acquisitions, and divestitures make sense. At the same time it becomes a numbers game to a lot of bankers, raiders and greenmailers; it disenfranchises large numbers of people; closes down towns; and sours a lot of people on the system.

Make no mistake, there will be a strong political reaction somewhere along the line and our industry and free enterprise will be the worse for it.

One of my industry concerns is that firms will be tempted to over-leverage to maintain lifestyles. Balance in areas of profitability, judgment, relationships and service, I believe, is still the key to investment banking.

Let me now move toward Canada's role in a global financial market. When the Hon. Thomas Hockin, Minister of State for Finance, tabled his policy paper on December 18, 1986, he said, "What we all want is a sound financial system that provides Canadians with innovative and competitive services, that broadens the range of choice for Canadian savers and investors, and that fosters safe and well-supervised financial institutions that can compete around the world." Aptly said.

The events of October have been a sobering experience in global markets—the link of instant communications and investors' presence in various markets, the interdependency of the world markets came home with a vengeance.

There certainly is no single cause for what happened. Two writers said it had to do with Judge Bork not getting confirmed; some said if only Secretary Baker had not dumped on the Germans; and it goes on and on. A proposed change in tax laws that would come down on mergers, greenmail, and LBOs was also given as a reason. The Iran-contra episode and the weakening of the presidency and the lack of action in Congress have been prominently featured; the perception that

West Germany was not playing ball and moving its rates up instead of down. All this and more have been cited.

The Schmeelk theory is to liken it to the San Andreas fault. A serious crack had developed, it was there; exactly when the earthquake would strike and how severe the shock would be on the Richter scale were the unknowns.

The U.S. has roughly a $450 billion cumulative foreign deficit; the trade deficit has shown little improvement; consumer debt levels are far above normal; the dollar was shaking; a high post-World War equity relationship to book value; fixed income rates versus equity yields were at a postwar high; a stock market awash with liquidity; and a high degree of speculation with takeovers, leveraged buyouts, and junk bonds, stocks being bought on the next likely takeover and huge buy-back programs supporting the market optimism; program trading; and low margin on future trading adding to volatility. A U.S. consumption rate some 4 per cent greater than productivity made up for by foreign borrowing. Suddenly a market awash in liquidity that had bred speculation found itself in a strong quarterly GNP upward move at the same time the money supply was contracting and interest rates were rapidly rising—an unsustainable position—and the massive earthquake struck.

In Australia the exchange index is down 44 per cent from the peak in late September. Davis Delins, senior economist at County National West Australia Ltd., said, and I quote, "The collapse of entrepreneurial shares has removed the momentum of takeover expectations that fueled the market the past 12 to 24 months" (November 2, 1987, *The Wall Street Journal*). The same could be said for many markets in various degrees. London down 33 per cent; New York 32 per cent; Hong Kong 44 per cent; Singapore 48 per cent; and Canada 26.6 per cent.

The simplicity of global markets and innovation, to raise capital debt and equity on the best possible terms, had given way to the casino society and the realization that all these new global markets did not create stability.

My colleague Henry Kaufman recently pointed out that foreign purchases in the U.S. equity market over the last 18 months were second only to mutual fund purchases, some $35 billion in foreign purchases. So any lack of confidence in the dollar could and did lead to massive selling.

So when they are going through the roof, the psychology is "It will never stop," and when the crack appears and a short-term liquidity problem occurs there are dozens of reasons why. Mostly we forget the lessons of history and now a whole new generation stops to look back on previous shocks to the marketplace.

I've lived through many market corrections before in the United States. I was in Mexico before the debt crisis; and one could only see the sky in Venezuela during the oil boom; real estate in Caracas would never go down. I can remember reading a book, *One Hundred Years of Banking in Canada,* and I was struck by the various parts of the economy that had experienced boom and bust during that period.

The lessons of history are often repeated. Excesses lead to corrections; speculators usually get punished with a vengeance during this period; the conservative investor, while hurt, lives to fight another day. Liquidity and quality reign.

The events of October have shown the need for leading firms, yours and ours, to be global in their thinking, as well as the need to be well capitalized. How important it is to understand the interdependence of markets, currencies, commodities, budgetary policies, the politics of economics, war and peace, and leadership of the free world. It is fair to say global politics have not kept pace with global trade and markets.

With the opportunities of globalization such as new employment, new market instruments to reduce borrowing cost and enhance competitiveness comes the high cost of foreign operation, the thinness in certain markets along with lack of profitability, and the need to understand the culture and customs in the countries you are operating in plus, hopefully, the realization that most of us cannot supplant strong traditional firms in their country of origin.

I believe this of Canada as well. We and others cannot supplant the best Canadian banking firms in their own market.

If the proposed trade and financial deregulation bills expand opportunity and increase Canadian expertise and trade, they will be good for Canada. We and you cannot substitute the barbed wire of protection and remain a competitive society. We will soon become stagnant societies.

You Canadians have much to be proud of—brave explorers and early traders settling your land; the forging of a great rail link across your country; the magnificent efforts of Canadians in two world wars; plus chasing the Yanks south in two other skirmishes. The truly remarkable performance of Canadian industry and labour, in peace and in war.

We are here today in one of the great cities in the world.

You are blessed with a country larger in area and resources although less populated than ours.

To me the heritage of the past is the future. A society must not forget where it came from and how it was built.

The lessons of sacrifice and hard work put upon modern Canada the duty to work harder than the next fellow, be more competitive and to keep your eye on higher productivity and less social spending than your competition.

Your fiscal policy should generally be to the right of ours. You cannot blame all your misfortunes on the elephant and you can with proper policies do better than us.

Now you might say who the hell is this guy coming up here to give us advice. I claim the privilege, as an investment banker who came north to Canada some 35 years ago and fell in love with your country and shared your aspirations.

In writing this speech, many fond memories have flashed through my mind—sailing on the *Bluenose* out of Halifax Harbour; having a beer with my Royal Canadian Navy partner, John Wiley, in the Crow's-Nest in St. John's; dining at Cafe Martin in Montreal; carnival time in Quebec City; budget time at Parliament in Toronto; visiting with the Eskimos and Indians in Northern Ontario; the booms in Edmonton and Calgary; visiting the great James Bay project; the pride of being in Ottawa as a lead banker to the federal government of Canada; Portage and Main at 20° below contrasted by the warm friendship of Winnipeg; the eternal snow flying across the country in winter; and bouncing across the stormy skies in the summers. The wheat fields of Saskatchewan and, finally, the magnificent parks in Vancouver; the crossing to Victoria and its beautiful gardens.

On the banking side, it translates into too many billions of dollars raised from the Maritime provinces to your western border. Hopefully, it has helped to create a better living for millions of Canadians.

Now I have one request that has not been fulfilled in my Canadian career. In 1943 I came straight from the navy to Salomon Brothers. I got kind of busy and never attended college. I am in pretty good shape—won a 40-and-over tennis tournament at my club this summer and was catapulted off the carrier USS *Theodore Roosevelt* a few months ago.

I would like to go into the *Guinness Book of Records* as the oldest varsity tennis player in the history of your country. I promise I am just as competitive on the court as I was in investment banking. If there are any of you education chaps out there, give me a chance, I won't let you down.

Now let me leave one last thought with you. In 1980, Japan's net overseas investment was \$11.5 billion; in 1986, it was \$180.4 billion. The U.S. was net \$106.3 in 1980—\$263.6 in 1986. Sometime in the next five years there is going to be a massive switch in those figures. It is going to have a pronounced effect on Canada as well as the rest of the world. If you Canadian investment bankers can figure that out, exchange rates, economic consequences, interest rates, equity prices, politics, Third World debt, etc., you will make a lot of money for your clients and truly wear the badge of a global banker.

I feel today somewhat like I did on the day I returned after two years in the Pacific and was greeted by my mother. I knew

I was home, God bless Canada.

I thank you.

The appreciation of the audience was expressed by Anthony van Straubenzee, a Director of The Club.

Edward L. Greenspan, Q.C.

Senior Partner, Greenspan, Rosenberg

THE ROLE OF THE DEFENCE COUNSEL IN CANADIAN SOCIETY

November 19, 1987

Chairman: Ronald Goodall, President

Ronald Goodall
When I learned that our guest speaker had written his autobiography, which I certainly intend to read, I thought that it would be appropriate for me to look at our literature to gain some insight into the problems, experiences and rewards of lawyers.

There have always been laws and lawyers. In the 14th century, a sergeant of law accompanied Geoffrey Chaucer on that famous pilgrimage to Canterbury. He told the pilgrims a tale of love and romance with a religious twist.

Several centuries later, Sir John Falstaff during his attempt at wooing the merry wives of Windsor crossed Robert Shallow, Esquire, a justice of the peace in the county of Gloster. Sir John beat Justice Shallow's men and killed his deer.

In the last century, Charles Dickens' Mr. Samuel Pickwick (general chairman-member Pickwick Club) got into a legal tangle and found that there were three grades of legal clerks: "The articled clerk, who has paid a premium, and is an attorney in perspective; who runs a tailor's bill, receives invitations to parties . . . the salaried clerk who devotes the major part of his 30 shillings a week to his personal pleasure and adornment, repairs half-price to the Adelphi Theatre at least three times a week" and finally "the middle-aged copying clerk, with a large family, who is always shabby and often drunk."

Our guest speaker has told tales. He is the author or co-author of several books: *Greenspan: The Case for the Defence, By Persons Unknown* and *Vengeance.*

I do not know if Mr. Greenspan has any deer on his North Toronto estate. As for the grades of clerks, our guest is paid a premium, receives invitations to parties and does have a family, a wife Suzy and two daughters, Julianna and Samantha.

Edward Greenspan was born and raised in Niagara Falls, Ontario. He graduated from Osgoode Hall Law School in 1968 and was called to the bar in Ontario in 1970. In 1982 he was made Queen's Counsel.

He has lectured on criminal law at the University of Toronto Law School, Osgoode Hall Law School, York University and on the Bar Admission Course. He is involved with the University of Calgary Law School, the faculty of law at the University of Western Ontario and the University of Saskatchewan Law School.

Mr. Greenspan serves on numerous editorial boards, is a radio host and personality and has written numerous articles for publication in legal journals including "What Bugs Greenspan" and "Crime and Punishment by the Media."

Mr. Greenspan has been and continues to be active as a member or director of many professional and community associations. In particular, I am pleased to note that Mr. Greenspan is a member of The Empire Club.

Ladies and gentlemen, please welcome Edward Leonard Greenspan, Q.C., senior partner in the firm of Greenspan, Rosenberg, who will address us on "The Role of the Defence Counsel in Canadian Society."

Edward Greenspan

Thank you for the kind introduction. I can now die and hopefully go to heaven. I have spoken everywhere over the years but never at The Empire Club and The Empire Club is "Carnegie Hall." I have now made it in the big city. I even joined The Empire Club five years ago hoping you would notice me. I don't even mind that I am the 2,521st speaker you have had in your 84-year history. Or that you waited so long to invite me. I am here and nobody can take this away from me.

I was going to take this opportunity to speak on the subject of free trade. I feel eminently qualified to speak on this subject because I don't know anything about it at all nor do I appreciate its ramifications and that seems to be a condition precedent to being an expert on the subject.

Then I decided to speak on the role of the defence counsel in Canadian society. But before I begin I want to suggest to you that in a trial lawyer's arsenal of weapons there is no more important weapon than a sense of humour. The humour of the law punctures the tensions of trial work, and keeps up our spirit and faith in the system. We have been blessed in this country and in the United States with some great, colourful and humorous judges and lawyers and I want to relate to you three of my favourite anecdotes. I have the actual transcripts all three cases.

The first occurred in Vancouver where the legendary Judge Mussalem, a provincial court judge sitting in criminal court, had reached the end of the road with a federal drug prosecutor's office. They kept loading his Friday court list when all the good judge wanted was a long weekend on his boat. The transcript reads as follows:

Mr. Kittle (for the Crown): Calling number 35, Your Honour, Joseph McLaughlin.
The Court: What do you want to do with your case, Mr. McLaughlin.
The Accused: I'll plead guilty.
The Court: Go up to Court 102, let the Sheriff know what you want to do and they'll attend to you there, sir.
Mr. Kittle: Your Honour, 102 is not sitting today. You are the only court sitting today.
The Court: Oh, hold it . . . they don't sit today.
Mr. Kittle: Perhaps then . . .
The Court: A curse on you, Kittle, and a curse on your house and the whole damned federal Crown for setting these cases down on Friday. I've told you about this before. Get a transcript with my profanity Kittle and give it to whoever is in charge there.
Mr. Kittle: Your Honour, this matter was set down by appearance not by . . .
The Court: I know, Kittle. You don't send out the instructions. Just a minute. I'll deal with it right now. Give me the information and if you do that, which I suspect you won't, Kittle, tell them I had a scowl on my face.
Mr. Kittle: Very well, Your Honour.
The Court: All right, read the charge.
The Clerk: Joseph Arthur McLaughlin, you are charged that at the City of Vancouver, Province of British Columbia, on the 25th day of January,

A.D. 1979, did unlawfully possess a narcotic, to wit, cannabis (marijuana), contrary to the provisions of the Narcotic Control Act. Joseph Arthur McLaughlin, how do you plead to this charge, guilty or not guilty?

The Accused: Guilty.

The Court: Go ahead, Mr. Kittle, tell me the heinous circumstances surrounding this offence.

Mr. Kittle: At approximately 2:15 a.m., January 25, a search was being conducted of the accused's room. He was found lying on the bed awake and in between the mattresses was found one plastic baggie containing five small plastic baggies containing suspected marijuana. A conversation ensued: "Do you know what this is?" Answer, "Yes." "Whose is it?" Answer, "It's my weed." Question, "Is it Michelle's?" Answer, "No," and there was further conversation which I think is unnecessary in this respect.

The Court: Any record?

Mr. Kittle: None, Your Honour.

The Court: How old are you, McLaughlin?

Accused: Nineteen.

The Court: How long have you lived in Vancouver?

The Accused: Off and on for the last two years.

The Court: Are you with your parents or on your own?

The Accused: On my own.

The Court: What do you do for a living?

The Accused: I'm an insulator on an apprenticeship.

The Court: You won't know why I'm doing this, McLaughlin, because I think you're a useless idle bum who pretends to be a citizen of Canada and flagrantly breaks the law of Canada doing little or no good to yourself or your country. I have not much use for you or your type, a bunch of long-haired freaks, and you won't understand why I'm giving you an absolute discharge, but I'm doing it because I'm vexed with the Crown. An absolute discharge. Get out. No one will ever know how lucky you are. You certainly won't, you haven't got the brains. Tell them that too would you, Kittle, and tell them that's the Friday routine from hereon in.

Mr. Kittle: Yes, Your Honour.

The late Walter Martin, Chief Judge of the County Court for the Judicial District of York was truly a great character. When he was a child, the first number he learned was 10, then 11, then 12, then 13 up to 35. He was a particularly intelligent man but in the area of mathematics he only knew numbers 10 through 35. It never became a real handicap in his professional life, but it caused havoc with the lives of any poor accused who had the grave misfortune to appear in front of him for sentencing. He was so infamous that in the jails if someone said they were "Martinized," it needed no further explanation and immediately caused all the other convicts to feel better off about their sentences.

One such unfortunate soul was one Pilon, a visiting Montreal robber. Pilon was ahead of his time. He demanded a bilingual trial in the late '60s. Judge Martin said no, but accommodated him with the best French interpreter money could buy. After Judge Martin convicted him he appeared to listen carefully to submissions on sentencing and then sentenced Pilon as follows: "You wanted a trial in French. Well, Monsieur Pilon, here comes the French. C'est la vie! Life imprisonment. Take him away."

But the funniest and most inspired sentence ever imposed comes out of New Mexico, 1887. This is the actual sentence of the court. This is the judgment of Mr. Justice McKay:

> Jose Manuel Xaviar Gonzales . . . in a few short weeks it will be Spring. The snows of Winter will flee away. The ice will vanish. The air will become soft and balmy. In short, Jose Manuel Miguel Xaviar Gonzales, the annual miracle

> of the years will awaken and come to pass. But you, Jose Manuel Miguel Xaviar Gonzales, won't be there.
>
> The rivulet will run its scaring course to the sea. The timid desert flowers will put forth their tender shoots. The glorious valleys of this domain will blossom as the rose. Still . . . you won't be here to see it.
>
> From every treetop some wild woods songster will carol his mating song. Butterflies will sport in the sunshine. The busy bee will hum happily as it pursues its accustomed vocation. The gentle breeze will tease the tassels of the wild grasses . . . and all nature . . . Jose Miguel Xaviar Gonzales . . . will be glad . . . but you.
>
> You won't be here to enjoy it because I now command the sheriff to lead you out to some remote spot . . . swing you by the neck from a knotting bough of some sturdy oak . . . and let you hang until you are dead.
>
> And then, Jose Manuel Miguel Xaviar Gonzales . . . I further command the sheriff to retire quickly from your dangling corpse . . . that vultures may descend from the heavens upon your filthy body until nothing shall remain but the bare . . . bleached bones of a cold-blooded, bloodthirsty, throat-cutting, sheepherding, murdering son of a bitch.

Now, I should get on to my topic.

I am always asked how can you defend "those people." How can you act for a guilty man? And not just non-lawyers ask but, sadly, law students, indeed *other* lawyers, ask.

Even my own mother is ambivalent about what I do for a living. When she reads about some "horrible" person who has retained me, she can't understand why I would take the case. I've often said Al Capone's mother was more tolerant of her son's profession than my mother is of mine.

Then I read an article on the great American criminal trial lawyer and owner of the Washington Red Skins football team Edward Bennett Williams in which William Buckley said:

> If Edward Bennett Williams had defended Adolph Eichmann, he would no doubt have introduced him by

> saying: "Adolph Eichmann's steadfast devotions to his own ideas on controversial ethnic issues earned him a horde of admirers and a horde of detractors." Whereupon he would proceed . . . to move in on the deficiencies in the legal case against Eichmann.

Then I got a letter that really got me thinking about my topic today. It was during a trial that received some attention in the media. It involved the distribution of some soft-core pornographic video home rentals. Judge Borins was the presiding judge. My client was a married man, two kids, no criminal record whatsoever—he had been a successful musician in Toronto, best known for his song about Eddie Shack, a popular hockey player in Toronto, back in the days when we had a real hockey team in Toronto. The song was "Clear the Track, Here Comes Shack." He became a distributor of home rental movies, most were Hollywood-made movies that could be seen in any theatre, some were "soft-core" and I emphasize soft-core pornographic movies. In the trial, Alderwoman June Rowlands was a Crown witness on the issue of community standards. This is the letter.

> Dear Mr. Greenspan:
>
> As a high-profile member of the judiciary, you were always respected by me, and I am sure by others.
>
> I was absolutely shocked to read that you are defending the lowest form of amoeba life on this earth. The pathological types who distribute pornography of the worst kind should be fined up to their proverbial eyeballs. Here you are, supposedly a respected lawyer, a member of the Queen's Counsel, fighting against June Rowlands. She knows what she is talking about. She is a mother of several children [I'm the father of two wonderful girls but I guess that doesn't matter] and she has researched the facts about pornography, *and* the spin-off sociological implications of that smut trade, on wife and child abuse, etc.
>
> Your mother would be ashamed of you, as I am. [Little did she know how right she was about this.] With your

> acumen, you should be fighting with concerned citizens to stop the flow of the most degrading and sick literature and videotapes coming in from the States.
>
> I had the highest regard for you prior to this incident, but now, I feel that you do yourself a great injustice by aligning yourself with these people. You do not need the money that badly! [Well, she obviously does not know my wife.] Your profession is an honourable one. You have a great opportunity to help the law-abiding citizens. Please—leave the creeps and bums to face their own just rewards. They have contributed nothing to society. Thank God for sane, sensible, and honourable men, like Judge Borins. *Please listen to him.*
>
> Yours truly,

I have a simple answer to all those concerns and it is involved in a consideration of the right to counsel. It is the only context in which these questions can be considered.

The concept of a right to counsel is one of the most significant manifestations of our regard for the dignity of the individual. No person is required to stand alone against the awesome power of the government. Rather, every criminal defendant is guaranteed an advocate—a "champion" against a "hostile world," the "single voice on which he must rely with confidence that his interests will be protected to the fullest extent consistent with the rules of procedure and the standards of professional conduct." Our *Charter of Rights and Freedoms* in this great land says an accused person has the right to retain and instruct counsel. It does not say every accused except gamblers, thieves and robbers. It does not say every accused except communists, members of the FLQ, members of organized crime and narcotics offenders. The right to counsel is an absolute right which extends to every person charged with a crime, no matter how socially or politically obnoxious he may be, no matter how unorthodox his thinking or his conduct or how unpopular his cause or, yes, no matter how strongly the finger of guilt may point at him. And I say that the right to counsel would be an empty sham if the members of the bar did not have a corresponding duty to defend all those who seek representation within only two limits. The limits of honesty and integrity.

For me, a criminal lawyer who refuses to act for an alleged "organized" criminal, a corporate accused, a businessman (and there are such lawyers), a Nazi, or for someone accused of crimes against women, children or the environment is like a medical doctor who refuses as a matter of principle to treat someone suffering from syphilis or AIDS.

Freedom of religion, freedom of speech, the right to bail, the right to trial by jury all have been forged and reforged through the years in the cases of men and women already condemned by society. As H.L. Mencken once put it: "The trouble about fighting for human freedom is that you have to spend much of your life defending sons of bitches, for oppressive laws are always aimed at them originally, and oppression must be stopped in the beginning if it is to be stopped at all." It goes without saying that one's obligation to defend a client does not import any obligation to defend his client's crime. You don't defend an accused murderer by arguing that your client's victim deserved to die. In short, it is the client and not the crime which a criminal lawyer must defend.

The role of a criminal defence attorney in a totalitarian state is different. A law professor at the University of Havana put it best: "The first job of a revolutionary lawyer is not to argue that his client is innocent, but rather to determine if his client is guilty and, if so, to seek the sanction which will best rehabilitate him."

A Bulgarian attorney began his defence in a treason trial by noting that "in a Socialist state there is no division of duty between the judge, prosecutor, and defence counsel . . . . The defence must assist the prosecution to find the objective truth in a case." In that case, the defence attorney ridiculed his client's defence, and the client was convicted and executed. Some time later the verdict was found to be erroneous.

In repressive countries, there is no independent defence bar. A sure sign that repression is on the way is when the government goes after the defence lawyers. Hitler, Stalin, the Greek colonels, and the Chinese Cultural Revolutionaries placed defence lawyers—especially vigorous and independent ones—high on their hit lists.

The emphasis in a free society is, of course, sharply different. Under our adversary system—in a free society—the interests of the state are not absolute, or even paramount. The dignity of the individual is respected to the point that even when the citizen is *known* by the state to have committed a heinous offence, the individual is nevertheless accorded such rights as counsel, trial by jury, due process, and the privilege against self-incrimination. I have always felt that a criminal lawyer can never excuse himself for accepting a defendant's confidence and then betraying it by a half-hearted defence.

Project yourself for a moment into the position of a defendant. If you should one day find yourself accused of crime, you would expect your lawyer to raise every defence authorized by law of the land. Even if you were guilty, you would expect your lawyer to make sure that the government did not secure your conviction by unlawful means. You would be justifiably outraged if your lawyer sat silent while the prosecution deprived you of your liberty on the basis of a defective indictment, perjured testimony or a coerced confession. In the movie, *And Justice for All,* Al Pacino was cheered by the audience both in the movie and in the movie theatre when he announced to the jury that his client was guilty. Surely that is not the kind of lawyer you want. You would scarcely want him to decide that these things were "technicalities" and that society would be better off if you were in prison. The most unpopular defendant has the right to expect the same kind of defence you would want yourself.

And the role of the defence counsel, the obligation the community places on him, is a societal role—to defend the constitutional guarantees of presumption of innocence and the requirement that in our democracy no one can lose freedom unless and until the state can prove guilt beyond a reasonable doubt. Our community can retain justice and freedom only as long as it gives standing to one person to take, within the limits of the law, the defendant's side in court and to remind society when the scales of justice are tilting in the wrong direction. For instance, we live in the Dawning of the Age of the Victim. You may think the defence counsel will naturally oppose the interests of the victim. Not true. What we must do is remind you all the time of the potential danger that fashionable and trendy ideas might have on the law. Will it upset the delicate balance the justice system desperately tries to maintain. John Robinette, the dean of Canadian lawyers, says, "It's so easy for the victim to exaggerate . . . I'm not happy about this new rule for the victim. It worries me."

I would add this. Whatever the reason for the rising popularity of the victim, the new suggested role for the victim is at odds with the tenets of democratic justice. The function of criminal law in theory and in fact is not the resolution of disputes between individuals. In the law of torts it is the individual suffering the delict who is conceived to be wronged. In criminal law, though the act may be and often is a recognizable tort, the important difference is the notion that it is the state or the collective community that has been injured. The substantive criminal law is not concerned with violations of the rights of individuals, but with violations of the collective interest in the security of the state, the safety of its citizens, or the shared morality of the community. A civil trial may be a fight between neighbours, each asserting rights. In a criminal trial, the state, on behalf of the community, accuses an individual of violating some collective value in the society.

A democratic society is not, however, solely concerned with dealing with crime as an attack on the law-abiding majority. We also value freedom and dignity of the individual and this has implications for how we treat the accused throughout the criminal process. It is the need to recognize these values which creates what may appear to be an imbalance, or as Ronald Dworkin thinks of it, an asymmetry. "The geometry of a criminal prosecution, which does not set opposing rights in a case against one another, differs from the standard civil case in which the rights thesis holds symmetrically." It is this peculiar configuration of the sides in criminal cases, the prosecution representing the collective values of our society set against the defence representing not only the individual defendant but the individualist values of our society, which makes it critical that we never blur the distinction between civil and criminal law.

Both sets of values are of great importance and are seemingly irreconcilable in the criminal trial. The ever-increasing popularity of the victim and the new role for the victim obscures the role of the state, attempts to legitimate personal revenge as a justification for public punishment, and tends to overshadow the primary focus of the criminal trial—the legalized attempt by the state to deprive the individual of his liberty. There are other forums for redress of the violence done to victims. The legitimacy of the violence we do to an individual accused of a crime can only be determined in a criminal trial.

The most important, the most frequent question I am asked, the question that comes up at my cocktail parties, is: How do we represent a guilty man? There is a simple, quick and complete answer. Our whole system of criminal justice is built on the basic premise that every man is presumed innocent until he is proven guilty beyond a reasonable doubt. His guilt must be shown by evidence produced by a prosecutor in a courtroom—not in a newspaper or broadcast.

"Guilty" in this frame of reference is not a moral term. It is a legal term. No one is legally guilty until a judgment of guilt has been made by the court. The lawyer is neither expected nor qualified to make a moral judgment on the person seeking his help. Moral guilt or innocence is no more within the province of the lawyer than within the jurisdiction of the court. The accused is entitled to have a trial and to have his legal guilt proven beyond a reasonable doubt by evidence tested in the crucible of cross-examination. He is not entitled to produce perjured evidence in court or to testify falsely. But he is entitled to sit silent and force the proof of guilt. Moral judgments by the lawyer are frequently wrong and he learns not to make them. No lawyer can assume the character of a judge.

Some time ago I was called to the local jail in Toronto to see a man accused of first-degree murder. The man I saw in the cells lived and worked about 100 miles out of Toronto. He was charged with killing a lawyer (that's still a crime in Ontario). The exact charge was that he and the lawyer's wife did him in. She had left her lawyer husband and taken up with my client. Shortly before the lawyer's death, she returned to him and re-established her relationship with him. My client moved back to Orillia where he became a life insurance agent. He told me on that particular day, the day of the murder, he had never left his home town about an hour-and-a-half drive north of Toronto and he had an alibi. I left the jail elated and determined. At the bail hearing, I cross-examined the chief investigating officer vigorously and after building up to the great finish I said to the officer, "And I suggest to you, Sir, that you have no evidence whatsoever that my client was in Toronto on the day of the murder and, in fact, I suggest that all the evidence shows he was in his home town when the victim was murdered." To my horror, the officer said, "That's not true, Mr. Greenspan, we do have evidence that your client bought gasoline in Toronto the night of the murder, at around the time of the murder."

Despite the horror I felt, outwardly I was a rock. I said, "You do not have such evidence." He said, "We do." I said, "You do not." He said, "We do," and I said, again very forcefully, "You do not." At this point, the judge stepped in to help the beaten officer and suggested I move to another area of cross-examination. My client got bail.

Naturally, I called my client in to discuss what the officer said in the witness box. Before anyone says he's about to breach privilege, I can tell you that most of what I will tell you came out in court and my client has authorized me to talk about those things that didn't, because of the lesson it teaches. I said to my client, "The officer says you were in Toronto buying gas the Monday night, the very night of the murder. Why did he say that?" And my client said that "the mistake was obvious." He had been in Toronto the night *before* the murder (the Sunday night) and had filled his car before his drive back to Orillia. It was so late Sunday that what must have happened was the date must have been changed on the credit card machine. I was thrilled. And after consultation with my client, we retained a private investigator to tie down the facts, get the copy of the credit card, etc.

After several weeks, my investigator brought me the necessary documents that proved beyond any doubt whatsoever that my client *had* been *in* Toronto the night the victim died and that he *had* purchased gas at around the time of the murder. No doubt about it. Our private investigator proved this fact better than the police could ever prove it!

So I brought my client back again. My secretary, "Della Street," was there. Two articling students were there as an indication of the solemnity of the situation. And I said to my client, "You've spent $1,500 of your own money proving beyond a shadow of a doubt that you were in fact in Toronto buying gas at about the time of the murder. For another $1,500 I think our private investigator can prove beyond a reasonable doubt that you personally killed that 'Bruce Lorenz.' " It was quite obvious I was furious with my client for wasting my time in the preparation of his defence, in not telling me the truth. My client was deeply upset. He was silent. Then he told us the following story. He started by saying he was afraid to tell me the truth because he thought I wouldn't act for him if I knew he was in Toronto the night of the murder. This is a problem lawyers have—getting the client to tell the truth and not saying what the client thinks the lawyer wants to hear.

He told me he met a young Toronto woman at a dance at the Orillia Fairgrounds several weeks before he was charged and he had made arrangements to take her out in Toronto on what turned out to be the very night of the murder. He drove to Toronto, called her and she apologized, said she forgot their arrangements and was having dinner with her mother. She told him to call again. He hung up the phone, went next door to a gas station, filled up his car and returned to Orillia. I said, "What's her name?" He said, "I don't know." I said, "What's her phone number?" He said, "I don't remember." But he remembered she was related to someone in his home town and he would try to call me with her name and number that week if he could remember. My secretary "Della Street" was laughing. The two students were snickering.

If you had made a personal judgment at that point as my secretary and students did, you would have been dead wrong. The story sounded far-fetched, implausible, but he had the name of the lady in Orillia who introduced him to the woman at the dance. We called her. My client did not know her well. She owned a business in Orillia and told us her cousin had indeed come to visit for the weekend and she had introduced her cousin to our client at a dance. She gave us her cousin's name and phone number. We called. The lady was reluctant to get involved. She had a boyfriend and had broken off the relationship. She went to Orillia for the weekend to get away and forget her problems. She went to the dance at the fairgrounds where she met our client and danced with him. He seemed nice. She agreed to go out with him in Toronto later. Coincidentally, it turned out to be the night the lawyer died. She came back to Toronto, made up with her boyfriend, and by the time our client called her saying he was in Toronto, ready to take her out on a date, she had completely forgotten about my client or that she had made a date. She did not want to get mixed up in any murder case but yes she had met my client and yes they made the arrangements as he said. When he called she was having dinner with her parents and had forgotten about the date and because she was a nice person she lied when she said, "Do call again." More importantly, she remembered when he called. She remembered the time of the call because she had just returned from a special course she was attending and in remembering the exact time she confirmed my client's story precisely. She proved he could not have been the murderer and she was a reluctant witness. By the time of the trial, her boyfriend was now her fiancé and he didn't want her involved. So she did not come forward willingly to help my client. And her evidence went a long way to achieving an acquittal. What if my client could not have remembered how he met her and we couldn't find her or produce her? Would I have been entitled to advance his story halfheartedly because it sounded implausible, because *I* had made a personal judgment about his guilt or innocence?

If I had, I would have been wrong. A man called Evans was charged with murder in England. He confessed to killing his wife and baby. Yet at trial he said he was not guilty and he claimed Christie, his landlord, had done it. Christie testified and said Evans was lying. The jury preferred Christie over Evans and Evans was convicted and hanged. Some time later, Christie sold his house at the now famous 10 Rillington Place in London and the new owner wanted to do some renovations and discovered some dead bodies behind a wall. The police were called and by the time they had dug up 10 Rillington Place, Christie was one of England's great mass murderers. He was later hanged too. Evans had been right. The Queen pardoned Evans making his heirs and successors a happy lot but it did nothing for poor old Evans. At an inquiry held into whether or not the infallible English judicial system could ever make a mistake, Evans' lawyer admitted he *always* believed Evans to be guilty. The horrible inference is that had he believed Evans to be innocent, he would have fought just that much harder, appeared *that much more* sincere, cross-examined *just that much better.* He might have been just that much better in the important decision-making process that inevitably goes on in every criminal case. A defence counsel's job is not to believe or to disbelieve. A defence counsel's job is not to make moral judgments. If you must make them, don't practise criminal law. Indeed, the Professional Rules of Conduct clearly say a lawyer should keep his private opinions as to credibility or merits to himself.

When a defence lawyer takes on a brief he must do so as in the words of a famous English lawyer:

> An advocate, in the discharge of his duty, knows but one person in all the world, and that person is his client. To save that client by all means and expedients, and at all hazards and costs to other persons, and, amongst them, to himself, is his first and only duty; and in performing this duty he must not regard the alarm, the torments, the destruction which he may bring upon others. Separating the duty of a patriot from that of an advocate, he must go on reckless of the consequences, though it should be his unhappy fate to involve his country in confusion.

Let justice be done—that is, for my client let justice be done, though the heavens fall. That is the kind of advocacy that I would want as a client and I feel bound to provide as a Canadian advocate.

The appreciation of the audience was expressed by The Hon. Justice Joseph Potts, a Past President of the Club.

Fraser Kelly

President
Fraser Kelly CorpWorld Group Inc.

BUSINESS AND THE MEDIA: PRIME TIME AND THE BOTTOM LINE

November 26, 1987

Chairman: Ronald Goodall, President

Ronald Goodall
Journalism and journalists have made interesting contributions to Canada. As the country developed, local newspapers were founded. Newspapers were printed in Halifax in 1752, in Quebec in 1764, in New Brunswick in 1785, in Montreal in 1788, and in Niagara-on-the-Lake in 1793. In each case, the name of the newspaper was *The Gazette* and news of local current events and Canadian affairs reached homes across the nation and helped bind the young nation together. In some cases, subscriptions to these newspapers were paid for in wood, one cord of wood for a four-year subscription! The publishers, like the coureurs de bois, had a tough time travelling, sometimes by sleigh, for miles to collect subscriptions and advertising.

George Brown, founder of the *Globe*, and Thomas D'Arcy McGee were both journalists and Fathers of Confederation. Sir Wilfrid Laurier once launched a newspaper which was short-lived. Henri Bourassa, the Quebec nationalist, founded *Le Devoir* and was a member of the House of Commons. However, Mr. Kelly, I do not recommend that you follow their example and enter politics. The first two journalists were shot dead; the former by an employee, the latter by a political opponent.

Our speaker was born and raised in Toronto and graduated from the University of Toronto with a degree in political science and economics.

Fraser Kelly's career has spanned 25 years. His career began at *The Toronto Telegram,* where Mr. Kelly did just about everything from police reporter to political editor to columnist. When the *Telegram* folded, he became full-time political editor of CFTO Television and hosted election night and leadership campaign programs and a public affairs program called *The Fraser Kelly Report.*

In 1981, Mr. Kelly joined CBLT Television Toronto as host interviewer of the nightly 6 o'clock news program *Newshour.* Again he had his own program *Fraser's Edge.* He became well known as a political convention anchorman, a public affairs host and as a reporter interviewing political leaders and public figures in this country and abroad.

Mr. Kelly has written and/or edited three books on Canadian politics, has contributed to almost every magazine in the country, and found time to function as an adjunct professor at the Graduate School of Journalism at the University of Western Ontario. He is married and has two children. Mr. Kelly is now making a successful transition from news to business. He is a principal of a Canadian company providing in its portfolio of services two very sophisticated specializations: the training of top-level executives in business and government in the skills of communicating under pressure and, secondly, crisis management.

Crisis management seems to me to be the situation faced when Daniel was thrown into the lions' den, which, of course, reminds me of a limerick about the tiger's den:

There was a young lady of Riga
Who smiled as she rode on a tiger;
They returned from the ride
With the lady inside
And the smile on the face of the tiger.

Ladies and gentlemen, may I present Fraser Kelly, partner of Fraser Kelly CorpWorld Group Inc., to address us on "Business and the Media: Prime Time and the Bottom Line."

Fraser Kelly

Thank you, Mr. Chairman. The view is different from here. After all these years, listening to and covering Empire Club speeches, I'm now at the podium. As the late John Diefenbaker would have said: "Not since Saul on the road to Damascus has there been such a conversion."

When Bill Wilkerson and I launched CorpWorld 14 months ago, we took our own version of the free traders' "leap of faith." Although we had been personal friends, and sometimes professional adversaries, for years, we didn't know for sure if we could work together. Or if people would buy what we had to sell. We can. They have. We realized very quickly that nothing focuses the mind like the prospect of poverty. Like all consultants, we were flexible: Someone would phone with a problem and ask "Is that what you guys do?" Bill's response was always, "That's exactly what we do"—then I'd offer to paint their house if they needed it.

I stand before you as someone who enjoyed one career in the media, and is now enjoying a second career in business. Today, I'm going to reflect upon those two very different worlds, where they touch and where they part. I'll have a suggestion as to how we might improve the quality of information available to the public through news. And, I'll deal with what I believe is a whole new set of imperatives the communications revolution has forced upon business managers.

Let's begin by recognizing that communications technology has compressed time and space to virtual nothingness. Think of it, no more time or space.

Billions of dollars are shifted around the globe in miniseconds, 24 hours a day. A global marketplace. Satellite product launches are becoming common and reflect the international nature of competition today. Information cascades upon us in bewildering abundance. It's almost as though we are standing at one huge technological street corner: ideas, ideologies, opinion, events converging in one challenging reality.

Choice is free all right in this Canada of ours. And tremendously difficult to make. For the timid or ill-prepared, it's an age of foreboding. For the courageous and well-prepared, it's an age of opportunity. Our world is linked in ways even our parents could never have dreamed about.

The Ayatollah and Iacocca live at 6. Bhopal at bedtime. Mideast madness in the morning. Terrorism, in all its frightening forms, including corporate kidnapping and product tampering, playing to, while being covered by, the seeing eye of television. Stories unfolding and being zipped around the globe like fragments of reality, touching, but not always affecting, our own reality.

This is the shrinking, pulsating world in which business and the media live, or rather co-exist. And I must say that since I have been in business myself for the past 14 months, I have been surprised, even a little dismayed, about how tentative that co-existence really is.

The relationship between business and the media makes Hugh MacLennan's *Two Solitudes* seem like *Family Ties*.

In the past year, CorpWorld has worked intimately and intensely in crisis management and risk communications skills training with a variety of business sectors and professions. Among them: the resource sector, the food industry, drugs, manufacturing, real estate, medicine, the law, entertainment.

In each of these areas, the attitude of executives toward the new pressures driven by the information age have varied.

Some have tried to ignore the new challenge, which is about as effective as spitting in the face of a hurricane. Some have tried to react very carefully, strictly on their own terms, while others have worked to develop the new skills needed to confront these changes creatively and productively.

Similarly, their attitudes toward the media, per se, are just as diverse. They run the gamut from fear and distrust to indifference and aggression. The roots of these feelings are cultural—fundamental differences between the mentalities of people in each sector—and historic. That's the way they've been taught to feel.

And, in some cases, this sentiment is rooted in the old axiom held so dear by some business people that business builds and the media tears down.

Whatever the reasons, and there are many of them, the gap between the two realms of media and business is wider than the Grand Canyon. It must be bridged for the sake of those caught in between: the public. I'll have a suggestion for bridging that gap in a moment.

First, I want to make a distinction here. The task of dealing with the larger question of a communications revolution is separate and apart from the specific matter of media relations. Both, however, revolve around another fundamental change which is dramatically altering the ground rules for doing business in today's world.

That is this: the public's right to know has become the public's demand to know. In turn, this means that senior business men and women are being held more accountable for their actions and, as surely as dawn follows dusk, must be more accessible to those communities of interests which seek them out. In short, the world is watching. The world is wondering. The world is sizing up. The world is asking. The task of business is to respond more quickly and more completely than ever before. There's no more hiding in the bunker.

Today, on almost every level, there are more real crises for companies to cope with, or apprehend, than ever before. And because of the impact of instant communications, those crises are potentially more lethal.

Consider this: a company faces a hostile takeover and is struggling to survive. Members of the public watch closely and ask what's that mean to me: my job? my future?

Or, a company uses, produces or transports toxic, dangerous goods. Should it be allowed to continue? Could a child be poisoned playing in the back yard because a cloud crawls across the neighbourhood from a truck that's turned over a block or so away?

A product may be contaminated, deliberately by a terrorist, or disgruntled employee, or by accident. How well do the company's crisis management techniques work and play back to a discerning public?

Companies today may be under deepening scrutiny by regulatory agencies such as the environmental police or the new Pay Equity Commission. These agencies mirror the public's demand that their interests, as interpreted by those in elective office, are not just coddled but truly advanced in the private sector. The same goes for the issues of health and safety in the workplace.

In all of this, a new generation of business skills is emerging as essential to running modern corporations. Bill and I, frankly, have staked our future on that fact and, so far, the gamble is proving us correct.

Sound risk communications skills—the ability to communicate under pressure to and through the news media and to and among groups or individuals in various settings such as the plant gate, in a public meeting, in tough questions and answers, in the presence of activists or politicians—are as much a part of the inventory of know-how for the modern business executive as the ability to read a balance sheet.

The capacity to react to any crisis, swiftly and responsibly, from both the company's vantage point and the perspective of public interest—and then to have the wherewithal to communicate clearly, accurately and honestly the steps yet to be taken, what you know and, importantly, what you don't know at the given hour—these are fundamental to sound management in a world of instant communications.

Instant global communications can, and usually do, enlarge the implications of a crisis. The pressure on business is to respond to the substance of the situation and to the urgent, widely dispersed information needs of the public. In this context, the question of making the right choice, the right decision based on assumptions at hand—and remember, information at the critical hour can be scanty—must be resolved with the public "looking in" almost right from the beginning.

The stakes grow larger. The pressure builds. Retaining control, a first principle in crisis management, can be tough when television cameras and radio voices are "probing and seeking" long before the manager feels he or she knows enough to say anything, let alone tell the full story.

Here the pressures of doing business in a volatile and unpredictable world of terrorism and radical change are merged with the pressures of coping with the constant deadlines of electronic journalists who are ready to transmit the story—even bits and pieces of it—around the world in the blink of an eye.

In this context, consider the influence of television itself as both a journalistic vehicle and cultural medium. It not only influences what we think, but how we think: local and world events are a shared experience. On Black Monday, for example, close to three million Canadians watched the market tumble on CBC's *The National*—all at the same time.

In the past, knowledge, which is power, was controlled by the information elite. Print was the preserve of the literate, books were bought by those who could afford them. Well, that is no more. Through television, we all get our information at the same time: literate and illiterate, rich and poor, old and young, male and female, farmer and factory worker. This is one factor pounding away at our traditional hierarchies and, I submit, at our traditional Canadian deference to authority. It is reshaping the tempo of our times.

And my former trade, journalism, is beginning to subject the world of business to the same kind of scrutiny we used to reserve for politics and politicians. Business is big news in the popular sense. It is page 1 as well as the business pages. It is best-seller in book stores. In the television sense, business is prime time, not down time.

This dramatic change in the appeal and pull of business news has occurred in less than a decade. Much less.

And make no mistake. This trend is irreversible. There will be no retreating to the cushy "No comment." Protecting the bottom line today means opening up, not covering up. Readers, listeners, viewers—the consumers of news and information—are thirsting for more insight and substance in the content and personality of business. They want to know about the individuals and the decisions affecting their lives whether it is closing an old plant or opening a new one . . . polluting the air or keeping a company town alive with traditional employment in a dirty industry . . . whether it is designing a new measles vaccine or turning out defective automobiles.

A whole new generation of women are handling their own financial affairs, raising a family as working, single parents, competing for the tough jobs. They want more information not as an option to traditional pursuits, but as a staple in their quest to know, and to act on that knowledge.

In all of this, business is working hard to meet the needs of the changing populace. Just as the media is working hard to serve what they perceive as the public's demand to know. A clash between business and the media can be expected from time to time. And the presence of an adversarial relationship between the two should neither surprise nor daunt us. It is a natural state. Let's examine it for a moment.

Good journalists in print, radio or television spend most of their working time "being informed." They read all the newspapers and magazines, listen to news, watch news and public affairs programs, study government documents, meet with academics, thought leaders, movers and shakers in all fields.

They know that to inform well, they must be well informed. It's their bread and butter. And this means they tend to work and think horizontally across a whole panorama of issues.

Good business people think across a range of issues as well. But their bread and butter information is contained within the context of their business. So, compared to the journalist, they are working down vertical lines. Their knowledge is stored and retrieved up and down a series of mind shafts.

Business people— and I have found this since I started a business myself—simply don't have the time to be informed in the same "What's happening today" style of the journalist.

It is hard to worry about the ozone layer when your banker is on the phone.

The result is a cultural difference, and also a practical, day-to-day difference in working style. This helps to explain, in part, the distance between business and the media. Sure, there are business people who simply would not try to "be informed" on the social issues even if they had the time, just as there are journalists who make a virtue out of ignorance. These two types become each other's stereotypes.

Good journalists pride themselves on being balanced, unbiased, more like umpires than players.

But, that so-called fairness can, and often does, get interpreted by the other side as the media "sitting in judgment," somehow being "holier than thou." That's dangerous for the media which has reason not to be holier than thou.

There are a couple of weaknesses—in logic if not integrity or both—which I believe sap the strength of an honest adversarial relationship and those weaknesses are on the media side. Now that I am "on the other side," so to speak, I have been surprised to find so many of my former colleagues writing speeches, hosting videos, even doing media training—while at the same time holding down jobs as working journalists. Talk about conflict of interest. That is something for the Centre of Investigative Journalism to look at.

Such double standards are fraught with difficulties for the press—particularly if they are displayed with a kind of piety. Perhaps it is just because today's media seem to be all-intrusive, but it is hard not to mention the irony of the fact that after decades of trivializing morality, the popular press seems now to be preoccupied with moralizing about trivia.

I do not want this to be interpreted as some sort of all-out attack on my old trade. Far from it. I loved it. Still do. And I believe it is fundamentally important to all of us. I look back, not in anger, but with fondness.

I believe now, as I did then, that it is a good journalist's job to be curious, probing, skeptical (not cynical), sometimes even confrontational. I've said, and I repeat, business should be subjected to more, not less, public scrutiny. And that imperative does mean media people and business people will be adversaries. In a nutshell, journalists may well want more information than business people want to give them.

That adversarial situation, however, need not always take on the overtones of two nations at war, or two neighbours fighting over a barking dog. Tom Wicker of *The New York Times* has described the press as adversary in the sense that, in a courtroom, a lawyer is the adversary of a witness he is cross-examining: "The lawyer has a duty not simply to listen to what the witness says and elicit responses from him, but somehow to draw from this as near a true story as possible"—(that's what good journalists do). Wicker goes on to say that when a witness is honest and forthcoming, a lawyer does not need rough tactics. But if the witness is not forthcoming, if he attempts to mislead . . . again the parallel is obvious.

But there is another more fundamental problem that drives apart the worlds of business and journalism.

There is a profound sense in the community at large that today's journalist simply does not know or understand enough about business to report on it responsibly. (And I'm not now referring to the specialty business press which has made significant strides in skills upgrading.)

The knowledge gap is especially obvious on the electronic side. The ability of television and radio organizations to gather news from anywhere in the world almost instantly has outstripped their ability to interpret the news, or put it in context. In that sense, their problem is not unlike the moral or ethical problems which new technologies are forcing upon doctors. I don't belittle the problem. For reasons mentioned at the start, our new world is more bewildering than brave.

There's an ecology of issues out there, all interrelated but constantly shifting and changing, all more and more complicated. All requiring better information systems.

It is in the interest of both worlds, business and journalism, to confront this head on, and try and do something about it. I would like, therefore, to offer a suggestion which might be a step in that direction.

In the United States, there is an organization known as FACS—the Foundation for American Communications. It is a national, nonprofit, educational institute dedicated to improving the quality of information reaching the American people through news.

It was established 11 years ago and it has become the neutral turf for news organizations, business, government, academic representatives to work together on common problems. Its fundamental mission is education, for journalists, for business people, for community leaders. But especially for journalists. It has the support of many of the most prestigious news organizations, corporations and academic institutions. The initial funding came from foundations, the news media, business and individuals.

It now involves the very best in American journalism, government and business. This year, first-rate educational conferences were held on subjects like international competition, economic redevelopment, law, ethics. That is a good idea. We all gain if the quality of information upon which we make our personal judgments is the best it can be.

Perhaps we should build on the American experience, as we have done in so many other fields, and expand FACS into Canada. Or, we can build a Canadian version of FACS involving our own media, our own business and journalism schools, our own academics and our own business community.

It is a cliché to say we live in the information age. Let's accept, for a moment, that the cliché is true. Surely then the challenge of producing better information, regardless of the natural benefits of an adversarial relationship between the media and business, is an idea worth pursuing.

Having said that, I recall the words of T.S. Eliot who wrote, "Between the idea and the reality falls the shadow." I think we all share an obligation to step out of this shadow as quickly as we can.

Thank you.

The appreciation of the audience was expressed by Marcia McClung, a Director of The Club.

The Hon. D. Grant Devine

Premier of Saskatchewan

FREE TRADE IN HISTORICAL PERSPECTIVE

December 3, 1987

Chairman: Ronald Goodall, President

Ronald Goodall

The word Saskatchewan comes from a colourful Cree Indian word meaning "swift flowing" or "rapid river" and, of course, refers to the three great Saskatchewan rivers. Saskatchewan is a colourful province: undulating golden fields of wheat; tall red, brown and green grain elevators; a vast often cloudless blue sky. Saskatchewan has a colourful history. Its capital city, Regina, was created by the need for a railway main line crossing at Wascana Creek. The city was named after Queen Victoria and that name still sounds better today than the earlier name of the site, Pile of Bones. Here was the home of the North-West Mounted Police who assisted in settling the rebellion of Louis Riel in 1885.

The colourful mosaic of Saskatchewan's friendly people reflects the settlement of the land by hard-working farmers, or would-be farmers, from Great Britain, France, Germany, the Ukraine and the Scandinavian countries, a people who remain individually and collectively proud of their heritage. Saskatchewan produced John Diefenbaker, a Canadian legend.

The Empire Club was two years old when Saskatchewan entered Confederation in 1905 and this Club has had a long and interesting association with the province over the years. Three provincial premiers have addressed The Club: James Gardiner in 1927; Tommy Douglas on several occasions, and Ross Thatcher in 1966. At least three of our living past presidents were born and raised in Saskatchewan.

The Hon. D. Grant Devine was born in Regina and raised on a farm near Lake Valley, Saskatchewan. In 1967, he received a Bachelor's degree in agriculture from the University of Saskatchewan. Masters degrees in agricultural economics and business administration from the University of Alberta and a doctorate in agricultural economics from Ohio State University rounded out his formal education. Mr. Devine taught agricultural economics at the University of Saskatchewan until 1979. He has continued with agriculture and is actively involved in a family farm near

Moose Jaw. In fact, he is the only premier in Canada with a wheat quota!

Grant Devine became leader of the Progressive Conservative party of Saskatchewan in 1979 and became the 12th premier of the province and the member of the legislative assembly for Estevan following the 1982 general election, forming the second Tory government in the province's history. Mr. Devine and his government were re-elected in October 1986.

Mr. Devine is an avid sportsman and in 1969 was a member of the Canadian championship baseball team. He is married to the former Chantal Guillaume and they have five children.

Governing any province is a difficult challenge and governing Saskatchewan has been made more difficult in recent times by the general slowdown in the economy, particularly in the grain, potash, and oil industries. These difficulties are being eased by the sale of Crown corporations and could be eased further by the proposed free trade arrangement with the United States. Perhaps as a result of these difficulties, the Premier is quoted as finding it "hard to tolerate eastern union leaders, free trade critics and New Democrats."

Ladies and gentlemen, please welcome the Hon. Grant Devine, Premier of Saskatchewan.

Grant Devine

I want to say how pleased I am to be here and have this opportunity to share some of my observations about current events. At the outset I want to tell you that I absolutely love Ontario wine. And I drink it every day. I want to take a little time today and speak to you about trade, more particularly free trade, between Canada and the United States. I am going to throw out several questions, and then answer them. And hopefully by the time I am finished, I will give you, the people of The Empire Club of Canada, and indeed the people of Ontario and all Canada, some food for thought.

It's particularly interesting for me to be in the industrial heartland of this nation, and to speak about the future of Canada. This morning I had a fascinating tour of the GM facilities in Oshawa, and while I was going to come down here and save Ontario from the United States, I decided to join you. And really, I would have to say in all seriousness, that not only would the rest of the country envy what I saw today, but indeed the rest of the world. It is phenomenal what is taking place in Southern Ontario, because of the technology, the efficiency, the economies of scale, the information that is being used, the training, everything that I saw—I'll touch on it in a few minutes, but I'm absolutely convinced. If I had doubts about it before I got here, I don't have any now, that what has gone on between the U.S. and Canada, in Ontario, has been phenomenal.

So I say, why am I here. I didn't just come to see Oshawa. To me, this is a very important political time in our history. The Empire Club gives out speeches, and has summaries of them. I'm sure when it sends out the summaries for 1987-88 they will be classic, in talking about the political and the economic debates about what this nation will be. I can say that I got into politics because I thought the country was perhaps going in the wrong direction. In my part of the world, in the 1970s, I found the governments nationalizing industries and closing up the borders, and buying out investment, and all my economic and business training taught me that either everything they taught us in university was haywire, or there was something wrong with the country, and certainly something wrong with some of the leaders who were taking us in that direction. So I've had a fundamental belief in more trade and more freedom internationally—fundamental from my own economic thought to my personal feeling about how we developed in Saskatchewan. All four of my grandparents were immigrants who came to this country to build.

There were thousands, tens of thousands, just like them. So I am a fourth-generation Saskatchewan individual who wants to build, and I get extremely frustrated when I find people who get in the way. Love them, but I either want to go around them or over them or through them, or something, because I want to continue to build. So today I am here because it's been a long mission for me to see if we can open doors for opportunity for our children, not close them. And open them not only locally and nationally, but indeed internationally.

And we have a historic opportunity here because, as it happened, the President of the United States and the Prime Minister of Canada agreed that maybe they could have a better arrangement between our two countries—or certainly a new one, and that's classic and historic. Well, when I talk about these things today I thought for this group it would be interesting to put it in perspective historically, because some of you here would recall some of the history. How have we been doing in terms of tariffs and policies over the last 40 or 50 years? Well, October the 19th was Black Monday when the market fell. Very similar to 1929, and it reminded me of things I had learned about that era, and I'm sure it might have reminded you a little bit of some of the things that took place 50 years ago. In 1929, we had the stock market crash. Governments made two fatal mistakes in 1930. The United States passed the Smoot-Hawley Act that doubled tariffs, and they raised interest rates. Now they did both because they thought they could show they were really going to be strong enough, that they could protect themselves from any disaster, and it was exactly the wrong thing to do. And by doubling tariffs other countries did what? They retaliated. And we doubled tariffs, and others doubled tariffs, and by 1933 there was massive unemployment across Ontario, Saskatchewan, the United States, and across the free world. We have witnessed that. So the high interest rates and the high tariffs were exactly the wrong things to do. And we suffered for a long time. We certainly did in the West. After that we got more serious about tariffs—we went into the Second World War, and when we went to war we got serious enough to say, we're not only going to stop trading with you, we're going to make sure you can't trade at all. What do you do in war? You apply sanctions, and you blow up their bridges, and you cut off their communications systems, and you blow up their ports and their railroads. Why? Cause you want to hurt them—you want to slow them up. Well, we applied all that and more, and we were successful. We won the war, but the world lost. We lost all that productivity, all that wealth, and families were destroyed. But we certainly learned how to hurt countries. Cause we learned in '29 and '30 and in the war.

Since the Second World War we've started to do things a little differently. We thought if this is how you hurt 'em, how do you help 'em. The first round of GATT, the General Agreement on Tariffs and Trade, was in 1947, and all the smart countries got together and said we are going to reduce tariffs. Why? Because it will help. Because going the other way hurts. And in 1963 to 1968 we had the Kennedy Round of GATT to do what? Raise tariffs? No, lower them, because it helps. From 1973 to 1979 we had the Tokyo Round, to do what? Lower tariffs some more. In the '60s about 60 per cent of the goods and services between the U.S. and Canada was tariff-free. Today, about 83 per cent of all the goods and services traded between the two nations is duty-free—no tariff. The average tariff is now down to about 10 per cent.

I go through that little bit of history because here we are again. We've had a stock market crash. And people are saying I wonder what we should do. Should we have this big omnibus trade bill in the United States that doubles tariffs? Should we raise interest rates? Well, clearly, history has shown that when you want to slow somebody up, you apply tariffs, sanctions. For heaven's sake, we're even talking about applying sanctions to countries in Africa, and it isn't to help them. It is to hurt them. Now say it again, so that nobody has any misconception. If sanctions hurt, and more sanctions hurt more, then fewer sanctions must help. You can't have it both ways, and historically that has been the case.

Now, today we've been reducing tariffs between the Japanese, Americans, Canadians, Europeans and others, and we have been doing pretty well. How well? Well, $150 billion a year in two-way trade between the U.S. and Canada. Lots of jobs—about 90 billion between Ontario and the United States—two-way trade. More than any country in the world most times. Japan and Ontario compete for first place. I think Ontario now does more business with the United States on a percentage basis than the State of California does with the United States. It's been quite profitable, because we have lowered tariffs between the two countries.

I point this out, because I believe that history should be looked at. We want illustrations of what works. When I was a teacher at university, the best classes were the classes where I used examples. So here's another. When you go the wrong direction you can hurt people. The best one I can find at home is that our economy has been hurting, because internationally people have been playing unfair. Price of wheat has gone from $7 a bushel to $2.50. How would you like your wages or salary cut by two-thirds or three-quarters. And the farmer's just as productive. Europeans and Americans have decided to take their treasuries and just unload money as incentives. The United States spends $1 billion a year just on storage of surplus grain. Now how do you get the price up when you got all that . . . They said, ah, you're cheating, then I am, because you have a subsidy and I have a subsidy, and if people have more and more subsidies, they get antagonistic, and then they don't want to trade with each other. So they put restrictions on my potash, on my meat, on the uranium, on the oil, and restrictions on the pulp and paper, and on the steel. One thing leads to another and soon you're in a conflicting situation where nobody's making any money, you're calling on the taxpayer to bail everybody out. We're into deficiency payments now here in Canada, taking on the U.S. Treasury. The same sorts of conditions that led up to the problems in 1929, 1930, 1935, that led to conflict generally, are there.

I can't find a reason why I would want to go out and raise tariffs against somebody else, and increase subsidies as a solution. It's always seemed to me a problem. I believe that the country has three choices today. We can just leave Americans alone, and they're our biggest trading partner. I don't think we can do that. I don't want to just walk away from it, I want them to change the way they think, and remind them of the mistakes we've made in the past.

Secondly, we could say, I want to change your laws immediately because I don't like your protectionism and your subsidies. But we can't even change our laws quickly, let alone American laws. Ever tried to change Congress quickly?

The third thing we can try to do is get them going in the right direction as opposed to the wrong direction. And the right direction is what? Let's keep the tariffs going down. Let's have some sort of mechanism where we all get in the same room and talk, rather than telling stories about each other on each side of the border. A binding mechanism.

And third, let's harmonize these laws, because we're each other's best neighbour, and the largest trading partners in the world. That's all we've got left. Either do what they're doing now, or have a quick fix, which is impossible, or we get hold of it, and that's what we're facing today. An opportunity to change the direction of not only that country, but the destiny of this country, and of the free trading world and probably the entire world, with one very historic example.

People will say this is not perfect, that we're going to cut a deal with the United States. They're right, it's not perfect. The question is, is it better than where we are today? Or where we have been, and is it in the right direction? I would argue that it is. And I'll give several reasons for that in a few minutes.

The biggest argument I get when I travel across the country is that we would be too close to the United States if we lowered our tariff more. We'd be too intimately tied. I have to go and find the best example that I know, and that's why I'm here. What's the best example of being closely tied to the United States? Right here in this room. You. Are you OK? You bet you're OK. Probably among the best in the world. And that's why I went to Oshawa, because I heard there were Americans going crazy in Oshawa spending all this money, billions of dollars of American money in Canada. In fact, it was getting so serious I was getting worried about your culture, your sovereignty, you'd lost your religion, you wouldn't watch CBC, you wouldn't even listen to CBC, because the Americans were investing all this money in your back yard. So I went to see how bad it was. I went to the mountain, and I've returned. It was beautiful. I mean GM alone, $8.1 billion 1980 to 1990, invested in this nice little triangle here. Forty-five thousand employees, $1.6 billion a year in salaries, every year. Do you know how much money that is a month? New homes, new cars, new mortgages, but investment and prosperity and wealth and schools and roads and hospitals and all the things you can build with productive people. Prosperity. I saw it in spades this morning. Not just the envy of other parts of Ontario, or the country, but indeed the world. The diversification, the specialization, the productivity, based on knowledge. Talk about knowledge-based industries, economic development, high-tech, the training and retraining that's going on in Oshawa alone is phenomenal. Productivity is up from 45 trucks an hour to 60. Same people, trained. Quality jobs, better jobs, and better opportunities. Some would say, when we have all this investment and we're close to the United States, we'd have to adjust. What an adjustment, right? We'd love it. Adjust to those new jobs, that kind of training opportunity, competitiveness, that kind of pride in the new technology, and the information-based world which Peter Drucker and others say, in the global village, is exactly where we should be.

Well, you could take the rest of the automobile business—it's near a hundred thousand jobs, all directly and indirectly. And billions being invested, here in Ontario. So you're tied to all this success. And I asked them this morning, well, why Canada. Two reasons. One, because of the productivity, and frankly, because of the wage structure here, which has them extremely competitive. And the social structure, which is extremely competitive. That's why they're here. And the exchange rate. Those two things say, for heaven's sake, I'm going to do it, and they are. Eighty per cent of their product goes into the United States. What I found out this morning is that I'm not here to save you. I'm here to join you. I'm here as a Canadian who says I'm proud of Ontario. I'm proud of your ingenuity, your courage. And when I think about my children, I want to see the same courage for the 21st century. I don't want us going the other way, I want to go forward, as their grandparents did, as you did, and as they want to. So when people ask me will we lose our sovereignty if we trade too much with anybody, it just isn't there. The Europeans in the Economic

Community, they're at war with each other, to their death. They have a common market, they're not worried about their sovereignty. Greece just joined. They figure it'll take five million years to change Greek culture, now that they're in the Economic Community. They're not worried about their culture. Only if you're strong enough to go into the community of the world will you build and maintain your culture, not by hiding. That's the cowards.

Some say it's too much investment. Would I ever like the problem of too much money. If we got it piled up so much, and just had money and money in investment, we'd maybe have to tax some of it back, or we'd have to regulate some and redistribute it, because we have so much. And we'd have built too many hospitals and services, too many good highways, because we had too much money. I spend half my time as a premier around the world, soliciting people and countries and investment to come to Canada. And people are saying, when the opportunity's here should we turn it down?

So if it isn't sovereignty, and isn't our culture, and isn't too much money, is it adjustment? Well, if we lowered tariffs we'd have to adjust. I want to mention a couple of things, because I hear about the adjustment, for example, that would take place in the textile industry that lives behind tariffs in Central Canada. And I ask the question, why would we ever want to confine those people, particularly women, to just that job? Why would we want to confine them to that when they could have better, higher paying jobs. More jobs. The same argument applied at the turn of the century when they introduced the sewing machine in New York. People were running around and picketing, saying, we'll all lose our jobs because of this technology. Well, the first to adopt the sewing machine started a revolution, and productivity went up. There were better jobs. Instead of knitting by hand, they could do it by machine. You have to adjust.

The other adjustment I want to mention is that for the little bit of tariff we have left, there's more adjustment going to take place in the exchange rate and the interest rates from day to day than you'll see in the tariff. Try adjusting to $2 wheat. Or when oil was $35 a barrel to $10 a barrel. Interest rates from 10 per cent to 20 per cent. Try that on for size in adjustment. Ten per cent interest rates, for exchange or duties and tariffs, gradually over 10 years down to zero.

Some have said we're not big enough to do this with the United States. Seems to me Ontario's big enough to do it alone. You're bigger than any other country trading with the United States. You're bigger than many states trading with the United States. You have shown the way. You are ahead of everybody else in the world, with the biggest trading partner there is. So Canada can't do it? You've got to be kidding. Then again, you've got to come back and say, we can't do it. I hear this all the time from the premiers who are not in favour of it. They say, I believe in free trade with the United States, but this deal isn't good enough. Let me just say, if you cut a deal with the United States, and all you did was agree to have tariffs go to zero over 10 years, I'd take it. Forget the rest of it, we'll just live the way we are right now, but we agree that tariffs will go to zero in 10 years. I'd agree to that. It's going the right way. What have we done in addition to that? We said we would have a binding dispute settlement mechanism. It's not perfect but it's better than the one that was there and is there today. And we've agreed over seven years to harmonize our laws to make them better, more consistent. Is that bad? No. That's what they told us to do immediately. Couldn't get it done immediately, but you can do it over time.

Then there's the argument, we don't have guaranteed access to the U.S. market. That's what they told us, guaranteed access to the U.S. market's not perfect, therefore I'm not taking it. I said yesterday at the agriculture ministers conference in Ottawa, how do you expect to have guaranteed access to the United States market when you go into the deal telling them you want to cheat. You want regional development policies, which means regional subsidies. You want supply management, which says I won't trade with you in those goods. You want beer carved out, because I don't think I can handle it. You want various kinds of things protected to start when you go to the table. So I say to those in the Maritimes who say I don't have guaranteed access, you want to give up regional subsidies, they'll probably give you access to the U.S. market entirely. Well, I can't do that. Well, then you won't get . . . They're not stupid. They're sitting across the table and saying, you don't want to trade these things? You want a little bit of cheating going on, you want to subsidize this, you don't want to trade that, you want to be able to do this and so forth. Well then we'll saw it off some place less than perfect.

What do you expect? You can have supply management, and all the marketing boards you want, all the regional subsidies, all the culture, all the things you'd like to have, and have the United States just open its doors and you can still cheat a little? No, you can't. Cause they're going to say, we want to cheat a little bit too. That's where you saw off. They have supply management, all kinds of commodities. They said, you leave our milk alone, we'll leave yours alone. You can saw it off. But don't let anybody tell you that we're going to get guaranteed access to everything in the United States and we can play by different rules.

Well, some have said, but they still have countervail and antidumping. If you design a perfect trade deal in theory — perfect — what does it say? We agree to live by these rules, and you won't cheat, and if you do, you're going to get called on. That's countervail. You're going along trading in whatever it is — widgets, coats — and somebody decides to fork up a bunch of tax money into that industry that is going to export to the United States, they're going to call you on it. That's countervail. Got to have it. You don't call it countervail, you call it something else. So what you do is you get a binding dispute settlement mechanism where both countries can sit down and look at it and judge it and find out if you really are playing by the rules. And that's exactly what's been done.

Then they'll say, they probably won't do it because the protectionist side of the argument is easier. Now that one has some smack. That's the one I'm most fearful of. It is awfully easy to sell the protectionist side. You go to all the people in Oshawa who are working, and you say to them, if you have a free trade deal, you'll lose your job. You can knock on doors in the ridings in Saskatchewan, or be with our largest private employer, Intercontinental Packers, makes bacon, sells it in 25 or 30 states, love Canadian bacon, you knock on these doors and you say I'm here to protect you from the United States, and they'd say good. Anybody's going to protect you. If you went to them and said, I'm going to lower tariffs and give guaranteed access to the United States in a free trade deal, they kind of look at you. What's this free trade? I don't understand that. Protectionist side is easy, and it has been for centuries. It's dangerous, but it's tempting and easy.

Like the little boy's first day of school. Johnny's going to school. Mom's got him at the door. Johnny, you're going to Grade 1. He doesn't want to go. Scared. Grandma's sitting in the living room, in the rocking chair, she loves him. She says, Johnny, why don't you come here and sit with Grandma, sit in my lap and I'll protect. You go to school you're going to get a bloody nose, some people will pump some new ideas into your head, and you'll probably think we don't know all the answers. Johnny, you stay here. If you go to school, you're going to lose some of your culture, you're going to lose all this stuff in the regions of the house, you won't be able to help us because you'll be away, Johnny, you stay here with Grandma. And you know what every Johnny would do. He'd run and sit on Grandma's lap, right? But Momma says no, Johnny. Grabs him by the arm and says, son, you're going to school. You're going to get Grade 1, and you're going to get Grade 2, and you're going to get Grade 12, and hopefully university, cause then you will really be able to build this family and this house. She doesn't succumb to the thought of protectionism, the weak argument, to hide. She says, son, you have to get an education. And that boy doesn't understand at that time, and if you had asked him about going to school or a free trade deal, he'd say, not on your life, but it wouldn't be right. Mom's right. It isn't that Grandma didn't love him. Grandma did love him. But you have to have strength, the courage and energy to fight for what's right. Well, people are afraid, and you can understand that. We have to fight for what we believe in, have the courage to go out there and put away the misinformation — put it down and take it on. Challenge it, point after point. So when I look at free trade, it's not perfect, but it's perfect in principle. This deal is not perfect, but it's perfect in principle. Lower tariffs, it's good for us, good for Ontario, for Saskatchewan, for the country and indeed it's good for the world.

There is no economic argument that doesn't say we shouldn't pursue this. I've looked at all the economic arguments — from adjustment to higher tariffs to lower tariffs to productivity to new jobs and better jobs. I'm challenging all premiers, and I'm here today to challenge the Premier of Ontario to join me in building a better Canada, a better Saskatchewan, a better country, and providing an example for the rest of the world in that kind of building. You have in the past, why quit on it now.

Finally, my friends, the world needs an example. If two of the finest, most sophisticated, mature nations can't cut a deal, who else is going to. We need one good example, internationally. We need to show the Japanese, the Europeans; in particular, we need to show the Chinese and the Soviet Union. We need to show the whole world how to put together a relationship between two mature countries, and say this is the way we'll take it. I need it. In the General Agreement on Tariffs and Trade, I need to have agriculture fixed, and then have the countries back out of subsidies and back away from protectionism. Number one irritant, worldwide.

And it's good for peace. The more you're interrelated, connected — the Japanese and Americans, all those hundreds of millions who need food, need our help, need access to Canadian markets, and we need access to theirs so we can increase their prosperity, and they can make a living and not just be dependent on aid . . . I find no economic reasons worldwide for higher tariffs. Political reasons, but not economic. I believe this opportunity we have as Canadians, right now, is historic, not only for Ontario and Saskatchewan and this country, but for the world, and I hope and pray that we have the courage to take up the challenge.

The appreciation of the audience was expressed by Brig.Gen. Stephen F. Andrunyk, a Past President of The Club.

Maureen Farrow

President, C.D. Howe Institute

THE YEAR AHEAD: KEY CONCERNS FOR 1988

December 10, 1987

Chairman: Ronald Goodall, President

Ronald Goodall
The subject of today's address is the year ahead. Predicting the future seems to me to have been and continues to be an obsession with men and women. Many ways of predicting the future have been developed by men and women over the years.

Ancient civilizations in Egypt, Arabia, China and other countries looked to astrologers to study the heavenly bodies and predict the future; sometimes these predictions were documented in a horoscope. The Romans had a religious college of diviners called augurs who interpreted certain signs — thunder and lightning, the feeding of sacred chickens, actions of serpents — and made predictions called auguries. Similar predictions based on the actions of birds were called auspices. Eventually, an array of forecasters or fortunetellers came into being. Some practised chartomancy by divining the future from playing cards. The crystal ball gained popularity as the forecaster peered into the globe, saw forms taking shape and read the future of a client. The interpretation of dreams allowed some to forecast the future; others interpreted tea leaves and coffee grounds left in a cup; others cast pebbles and looked at the lie of the pebbles to achieve the same result.

Economics, sometimes defined as the study of human behaviour in using resources to satisfy wants, also found its origin in ancient times. Greek philosophers regarded agriculture as of prime importance in the economic hierarchy and placed higher values on statesmen and soldiers than on industry and commerce. Profit was a dirty word in those days. The classical economists such as Adam Smith and Thomas Malthus developed ideas on production and population and produced the laws of diminishing returns (which may be evidenced today by the length of this introduction).

Recent economists from John Stuart Mill to John Kenneth Galbraith built on those earlier ideas and have certainly influenced policies of business and government. Notwithstanding these advances in economic theory and the ability of the economists. I suspect many in this room today read their horoscope in today's newspaper before leaving the breakfast table! My own horoscope for today is particularly interesting: "Libra — Watch what you say today. You could blurt out a friend's secret. Avoid buying extravagant Christmas presents. A friend gives you the benefit of her experience. Show appreciation."

It is our particular good fortune to have a distinguished economist, Mrs. Maureen Farrow, with us today. Mrs. Farrow was born and raised in England. She received an honours degree in economics from Hull University and undertook postgraduate work at the London Business School. In 20 years of professional experience, she has specialized in applied economics and industrial market research. In particular, Mrs. Farrow has acquired an in-depth expertise in financial markets, consumer products, retailing, construction, real estate, and metals and minerals.

The prestigious C.D. Howe Institute is one of her responsibilities. This institute is an independent research institution which monitors fiscal, trade and monetary policies and contributes critiques and policy advice. Mrs. Farrow continues as a partner with the Coopers & Lybrand Consulting Group. She is a member of the Social Sciences and Humanities Research Council of Canada, past president of the Canadian Association of Business Economists and a member of a number of professional associations. For the past four years, Mrs. Farrow has been a judge of the National Business Writing Awards.

Mrs. Farrow is married and has one son.

Ladies and gentlemen, may I present Maureen Farrow, President of the C.D. Howe Institute, who will address us on "The Year Ahead: Key Concerns for 1988."

Maureen Farrow

It is a great pleasure to be addressing The Empire Club. And before this audience I think it is most appropriate that I should open with a quotation from Winston Churchill: "No one can guarantee success in war, but only deserve it." We at C.D. Howe Institute believe that 1988 will be a difficult year from a policy perspective, and that there is a danger that Canada will be diverted from the right course. We believe that if Canada is to deserve success, the federal government must ensure that it does not get distracted from its current policies.

In addressing this danger, I want to talk first about the economic environment I foresee for the next year. Then I will discuss the pressures the government will be under from the election timetable. Finally, I will talk about the policy implications of these forces coming together.

I should say at the outset that economic and political events seem to be conspiring to make it extremely difficult for Canada to do the right thing from the country's long-term economic perspective.

The Economic Environment. Let me start by drawing a picture of the state of the world economy prior to the October crash. Industrial production data show that for the six major industrialized countries — the United States, Japan, West Germany, the United Kingdom, France, and Canada — the expansion that started in late 1982 continued through 1987. In fact, over the summer months, an acceleration became evident. Most countries are reporting growth in industrial output that exceeds earlier expectations, and the expansion is in exactly those sectors and regions that were struggling in 1985 and 1986. For instance, domestic demand is rising in West Germany and Japan, and even in the United States there is an improvement in the volume of exports. Resource prices are rising, and this has encouraged renewed activity in the oil and gas and mining sectors, which had been bypassed by the prosperity of 1985 and 1986. The most encouraging sign of all is that, to date, the expansion has continued largely without any evidence of a renewed outbreak of inflation.

Canada Continues to Perform Strongly. Against this world setting, Canada continued to perform strongly in 1987 right up to the fourth quarter. In the first half of the year, economic activity (measured by real GNP) expanded at annual rates in excess of 6 per cent and in the third quarter by a respectable 4.3 per cent. Canada has, in fact, experienced one of the strongest growth rates among the OECD countries. A welcome characteristic of Canada's economic performance this year is that all regions of the country have started to enjoy what had previously been a central Canadian economic experience.

However, the numbers for the country as a whole have begun to show some moderation in the fourth quarter. The slowdown is largely in the consumer sector, and in particular, in housing and car sales. It was expected that, as the Canadian economy came to the end of its fifth year of expansion, some slowdown would occur. Prior to Black Monday, most economic forecasters expected that economic growth in 1988 would be slower than in 1987.

Black Monday and the Concerns for 1988. Since October 19, people have been wondering if we are at the edge of a precipice and if, in the next few months, we will fall into a 1929-style recession. My belief is that the stock market correction reflected an overvalued and speculative market. The correction in fact was just returning equity values back to the real world. But October 19 must also be regarded as a moment in time that crystallized a number of key pressing international concerns. These are:

- international trade imbalances;
- the U.S. budget deficit; and
- exchange-rate volatility.

Global Imbalances. Over the past year, concerns have focused on the merchandise trade and current account imbalances among the major industrialized countries. The U.S. trade deficit has continued to deteriorate, while Japan and Germany have recorded surpluses. The size of the U.S. trade deficit has meant that the United States has shifted from being the world's largest creditor in 1980 to becoming the world's largest debtor by 1986. The United States now requires about $150 billion a year of capital inflows to finance its trade deficit.

Prior to the summer of this year, most of the capital inflows were being supported from the international private sector. However, as the U.S. dollar has continued to fall, there is evidence of increased unwillingness by the international private sector to support U.S. capital requirements, and the void has had to be filled increasingly by the central banks. Put simply, the issue is how to reduce the U.S. current account deficit on the one hand, while reducing the Japanese and West German current account surpluses on the other. hand.

Attention right now is also focused on the size of the U.S. budget deficit. Financial markets continue to call for a substantial reduction in that deficit. However, meaningful reduction requires either tax increases and/or spending cuts mainly in social and defence programs. And President Reagan has ruled out both of these methods.

The compromise solution that came out of the economic summit following Black Monday has been the $30 billion deficit reduction package, which, when looked at closely, is more like a $21 billion package. This, of course, is less than Gramm-Rudman. Evidence to date shows us that patience in the financial markets is wearing thin as the United States demonstrates its inability to solve its budgetary deficit problems. My opinion is that compromise will continue through 1988 and that there will not be a meaningful resolution to the U.S. deficit problem until a new administration takes office in 1989.

The 1988 Economic Direction. In summary, the world economy is slowing and decisive economic leadership from the United States is unlikely in 1988. When I look ahead to 1988, my belief is that without decisive leadership, there are several directions that the world economy can take.

The optimistic scenario is that the economy will continue to perform as it is now doing, and the United States will continue to muddle through the presidential election year, for the time being allaying the concerns of the financial markets about its budget deficit but leaving resolution of the problems to 1989 and a new president.

However, I think it will be difficult to navigate successfully through 1988 in this manner. I believe that the pressure points I have already discussed will re-emerge. With a lack of commitment to implement a meaningful deficit reduction package in the United States, Europe, led by West Germany, could lose patience and decide not to support the capital inflows that the United States requires. The inevitable slowdown that we anticipated as we enter the sixth year of the business cycle will then occur.

A second key factor that will shape economic activity in 1988 is the psychology of consumers and business leaders as they make their plans to spend and invest in this uncertain environment. One can argue, to a large extent, that the consumer is not directly affected by the stock market crash because few people are directly involved in the stock market. Nevertheless, Black Monday may have an indirect effect on consumers and the corporate sector because memories of the 1981-82 recession are not buried that deep.

I believe that Canadian consumers and corporations will carefully evaluate their expenditure plans for the next six months and act conservatively in order to protect their current positions and not take undue risks. In fact, at this moment, I believe many corporations in North America are postponing capital commitments. And this delay and postponement will flatten out economic activity in 1988 as projects are stalled. This supports my view that 1988 will see continued softness.

In a nutshell, I believe the Canadian economy is already showing signs of a slowdown, and that the slowdown will now become more firmly entrenched. The risk is that this modest correction could turn into something more severe late in 1988 or 1989.

The Election Environment. Let me now turn to the pressures that the federal government will come under from its election timetable. The government is now well over halfway through its term. And an election must be called by the fall of 1989. Possible dates that come to mind are the early summer or fall of 1988 or 1989. At this moment, economic and political scenarios suggest that there may be attractions to calling an election in the fall of 1988. This timing would follow the June summit and would allow an election after the enactment of a free trade deal but prior to its taking effect on January 1, 1989.

My concern is that an election occurring only nine months from now will run the risk of crowding out and hampering sound implementation of basically sound policies that are now in the pipeline.

Critical Policy Areas. In conclusion, I will examine the critical policy initiatives that are likely to be affected by the convergence of economic and political forces. These are free trade, tax reform, and deficit reduction.

First, free trade. Once the agreement is signed on January 2, 1988, I believe the government should adopt a positive stance and move ahead by tabling and passing the agreement in the House. Given my view on how 1988 could unfold, not to do so would just compound the uncertainties for the Canadian business community.

Second, the tax reform package. I urge the government to proceed with stage one, paying attention to some of the recommendations of the parliamentary committees that have recently reported. In particular, adjustments to reduce the negative impact of stage one on middle-income families with children are called for. There appear to be technical problems with the Blenkarn Committee's recommendations of a minimum tax on financial institutions, so some other means of making the package revenue neutral may be required.

It is also important that the government act on stage two and replace the federal sales tax with a broad-based consumption tax. If the current round of discussions with the provinces fails to solve the issues surrounding the introduction of a national sales tax, then I believe the government should go it alone. It is important that the government make a decision on stage two—which is generally recognized as the most important half of the tax reform package—as soon as possible and announce the detailed plan before the next election.

Third, there are growing concerns over the federal deficit. The deficit has shown an improvement over the past few years and the current fiscal plan has the deficit moving gradually lower. However, a number of forces could combine in 1988 to direct deficit reduction off course. These forces are as follows:

- Shocks from the international imbalances will result in a weaker economic situation for Canada. This means there is the possibility revenues will fall and expenditures will increase, and the deficit will rise.

- The chances are that, after the recommendations of the parliamentary committees are incorporated, stage one of tax reform will be negative from a revenue perspective.
- As the election gets closer, the government may be tempted to embark on expensive new programs and consequently, expenditures will rise. Already, we are aware of increases associated with the child-care program, increased agricultural support, and defence requirements.

These possibilities worry me, as the total Canadian deficit is already one of the largest among the major industrialized countries. As a percentage of GNP, it now stands at 4.1 per cent compared to 2.0 per cent in the United States. A fact that is often missed is that, in the United States, the state governments are in surplus. In Canada, provincial governments have been building up sizable deficits. By 1986, these deficits amounted to $8.4 billion. This comparison sends shivers down my spine. Attention is currently focused on the United States, but it could shift to Canada's deficit. Then, the issue of financing the deficit will come into play.

Summary. Let me summarize. First of all, the stock market crash and the U.S. impasse on deficit reduction indicate that 1988 will be a year of volatility. The implication for Canada is that the economy, which is already beginning to slow down, could slow down even further. Political events in Canada lead me to believe that an election may be called in late 1988. Combined, these economic and political events imply that the government should proceed speedily with policy implementation on free trade and stage one of tax reform, and reach a solution and a plan for stage two of tax reform. It should not embark on major new expensive initiatives. This will allow it to complete the basically sound policy agenda it has put in place. The government must also keep a watchful eye on the economy and on what a negative turn in the economy could mean to its deficit-reduction plan. It cannot afford to waste money or risk being shifted from its deficit-reduction path.

The February 1988 budget will present an opportunity for the Finance Minister to take stock of the economic scene and to take additional steps to bring down the budget deficit.

In conclusion, I would like to send the following message to Ottawa. In 1941, Winston Churchill said in a radio broadcast to President Roosevelt, "Give us the tools and we will finish the job." I believe these are the words of a man committed to following through. And this is the time when the Canadian government should avoid all other distractions and concentrate on following through and delivering on its current policy initiatives.

Thank you for your attention.

The appreciation of the audience was expressed by Anthony van Straubenzee, a Director of The Club.

The Hon. Lincoln M. Alexander,
P.C., K.St.J., Q.C.

Lieutenant-Governor of Ontario

CHRISTMAS LUNCHEON

December 17, 1987

Special performance by the Etobicoke School of the Arts under the direction of Barbara Young

Chairman: Ronald Goodall, President

Ronald Goodall

Some of us are old-fashioned. We believe in remembering only the good things of our childhood and reliving those memories from time to time. We enjoy continuing traditions that have passed from generation to generation, particularly the tradition of Christmas. The Romans may have started it by celebrating the feast of Saturnalia in mid-December and exchanging gifts. The Saxons added holly and ivy to these celebrations.

In the 18th century, the Christmas tree became part of the tradition, and the Christmas card appeared in the 19th century. Today we have Christmas carols, yule logs, Christmas pudding, mince pies, Christmas shopping, *la messe de minuit* and the *réveillon de Noel* immediately afterward, the Christmas Day service and the turkey dinner, Christmas lights and, of course, Santa Claus (whom I believe in because when I was about seven years old I actually heard the bells of his sleigh go by the house; I ran to the window but I missed seeing him).

The Empire Club has continued the tradition of Christmas since 1913 with its Christmas luncheon and lieutenant-governors have graced its Christmas luncheon head table since 1963. His Honour Lincoln Alexander, Lieutenant-Governor of Ontario, is a valued friend of this Club, and of course, is well known to The Club as lawyer, war veteran, member of Parliament, cabinet minister and as The Club's Honourary Vice-President. May I invite you, Your Honour, to bring greetings from Her Majesty Queen Elizabeth.

The Hon. Lincoln Alexander

Yes, Christmas is fast approaching and what I have noticed about this particular time of the year is the friendship that is exhibited. Have you ever noticed how people are so willing to say, "Hello, how are you?" "Merry Christmas," as the case may be. Wouldn't it be wonderful if those attitudes could be expressed for the whole year. It would make life so much more bearable. So much warmer. Well, not all of us, of course, celebrate Christmas. There are some of us who, because of religious or cultural differences, do not. But I think there are so many of us who do. It's a time to think of the family traditions, expressions of love, forgiveness, support, and that age-old tradition of exchanging gifts. But I think we always have to remember the real meaning of Christmas — we celebrate that blessed event that holds up so much hope, holds up peace, goodwill toward all. And I'm delighted this Club has been bringing about this wonderful Christmas luncheon. It's very moving when you think that you can get this many people out from their busy schedules in order to have this time-honoured tradition pursued once again. But above all that, we may be here enjoying the dinner — and mind you it was wonderful — but have we thought of others who are not as fortunate? Are we able to make some poor child, who will be crying on Christmas, not cry? Have we thought of the homeless? You see there are a lot of people who will not be enjoying the joys of Christmas that we enjoy because of a number of reasons, primarily economic. Have you thought of them? I hope you have time in your busy schedule for the next three or four days to think of them because you can make a difference. In my small way I have tried to make a difference. I hope you will remember that there are others who won't be eating Christmas turkey; others who won't be able to smile; others who won't have that home, and the warmth of it and the love. Think of them, it's not too late. You could make the difference. Let me say, Mr. President, how delighted I am and honoured to stand here as Her Majesty's representative in and for the Province of Ontario to extend to each and every one of you sincerest wishes, holiday greetings or, on the other hand, merry Christmas and may the new year be filled with love, happiness and good health. Thank you very much.

Ronald Goodall

Thank you indeed, Your Honour, for your kind words and for joining us today. May I ask that you extend The Club's wishes to your good wife.

At this time, I would like to take this opportunity to thank our energetic secretary Anne Lato for her contribution to this and our other luncheons as well as for keeping this president in line. I would also like to thank the Royal York staff under Joe Caterino, our pianist, Robert Fenton, and our photographer, David Junop, for looking after us so well each Thursday.

The Etobicoke School of the Arts was formed in 1981 to nurture young artistic talent. It was the first public high school of its kind in Canada and it enables students to complete an academic program while they major in one of the arts: dance, drama, music, or the visual arts. Once graduated, the students qualify for admission to college or university to continue their studies of the arts or another academic discipline. This group has very recently been selected to perform at the Calgary Olympic Games.

Ladies and gentlemen, please welcome tomorrow's radio, film and TV stars: Barbara Young and her ensemble from the Etobicoke School of the Arts.

A Christmas performance by the Etobicoke School of the Arts under the direction of Barbara Young

The Club's appreciation to Barbara Young and her group of performers was expressed by Maj.-Gen. Bruce J. Legge, a Past President of The Empire Club and Past President of The Empire Club Foundation.

J. Graham Day

Chairman and Chief Executive Officer
The Rover Group PLC

MANAGING CHANGE, CORPORATE REVIVAL AND PRIVATIZATION IN THE BRITISH PUBLIC SECTOR

January 7, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

I am rather hesitant in admitting that, since my school days, King Henry VIII of England has been one of my favourite monarchs. I hesitated in making this admission today because I recognized only recently that extreme male chauvinism and disregard for the usual benefits accruing to a wife, currently codified under our family law reform, were evidenced by the king's resolution of his marital difficulties, three divorces and two executions by beheading!

However, during his reign, Henry VIII founded the Royal Navy, revised parliamentary institutions and gave the Bible, now translated into English, to the people. One of the king's closest advisers was Thomas Cromwell. A commoner who became a lawyer, Thomas Cromwell is credited with creating government departments operating outside the royal household. Unfortunately, Thomas Cromwell was accused of treason, taken to the Tower of London and executed by beheading.

Responsibilities for government passed from kings to prime ministers. One of Britain's most famous prime ministers was Sir Winston Churchill. During World War II, one of Churchill's most able ministers was Max Aitken, Lord Beaverbrook. Canadian-born and a successful businessman in Canada and Britain, Lord Beaverbrook played a crucial role in Britain's war effort.

The precedent had been established and in recent years another British prime minister turned to another Canadian for assistance. Our speaker today is Margaret Thatcher's industrial trouble-shooter, a man who needs "the stimulus of a challenge."

As for the other precedent of beheading lawyers and close advisers, our speaker was quoted by the *Financial Post* as saying, "Margaret Thatcher is the kind of person who speaks her mind and lets you get on with the job. But if you fail, she'll hand you your head."

J. Graham Day was born in Halifax, Nova Scotia, the son of an Englishman who emigrated in the early 1920s. He was educated at Queen Elizabeth High School and Dalhousie University in Halifax. He graduated with a law degree, was called to the bar of the Supreme Court of Nova Scotia and practised law until joining Canadian Pacific in 1964.

During his seven years with Canadian Pacific, Mr. Day was engaged in a wide range of commercial and industrial matters: rail, air, road and marine transport; hotels and catering; telecommunications and property interests. He acted as counsel in national labour negotiations and conciliation proceedings. During his stay with Canadian Pacific, the story is told that a new CP ship was lying unfinished as unions argued over job jurisdiction. The strikers arrived one morning to find the argument settled. The CP ship had gone. Mr. Day had the ship towed and sailed to southern Ireland for completion.

He resigned from CP to accept an appointment by Edward Heath's Conservative government as chief executive of Cammell Laird Shipbuilders Limited, which was then 50 per cent owned by the British government. Cammell Laird was returned to profitability. Mr. Day was then appointed deputy chairman and chief executive of the organizing committee for British Shipbuilders to plan the public ownership of shipbuilding, ship repairing and marine engine building companies. He declined to renew his contract a year later because of delays in the nationalization legislation.

He returned to Canada as professor in the graduate business school at Dalhousie University and as director of the Canadian Marine Transportation Centre (a government/private industry-financed research unit). After four years with Dalhousie he joined Dome Petroleum as a vice-president and as president and CEO of Les Chantiers Davie, Lauzon, Quebec.

In early 1983, he returned to British Shipbuilders as chairman and chief executive and managed the privatization of the warship building and ship repairing companies. In March 1986, he was invited by Margaret Thatcher's Conservative government to become the chairman and chief executive of BL PLC, another state-owned company being an amalgamation of the companies that produced the Austin, Morris and Triumph cars, the Land-Rover vehicle and Leyland trucks.

Mr. Day was awarded an honourary doctorate of laws by Dalhousie University in 1987. He is a Freeman of the City of London and a Liveryman of the Worshipful Company of Shipwrights.

Ladies and gentlemen, it is my great pleasure to present J. Graham Day, Chairman and Chief Executive, The Rover Group PLC, who will address us on "Managing Change, Corporate Revival and Privatization in the British Public Sector."

Graham Day

I appreciate very much this opportunity to speak to The

Empire Club of Canada. As a consequence, I find myself in the possibly unique position of one born, raised and educated in Canada, resident and working in Britain on behalf of Her Majesty's Government, and speaking in Canada today to a Canadian, or predominantly Canadian, audience about and possibly for British business. I should point out that it is the combination that is unique, not that I may presume to speak, in passing, for British business. Indeed, for probably the most important third of my working life I have considered myself to be a British businessman in most respects.

I chose my topic in order to try to give you a little flavour of an aspect of business life in the Britain of the 1980s. The policy for governments' disposing of state-owned businesses, now universally known as "privatization," was an early initiative of the first Thatcher government in Britain in 1979. I suspect that most Canadians with any interest in privatization, asked for examples of the process in action, would respond by referring to one or more of the large international British stock flotations such as British Airways, British Telecom or British Gas. There are, however, many more less well-known British names which, particularly during the last four years, have made the transition from the public to the private sector.

Partly because it is an important element of what I do for the British government and partly because achievement is important to all of us, I seek to measure my own contribution to the furthering of a policy which I support wholeheartedly. Earlier this year, Price Waterhouse, the accountants, prepared a report which provided details on the major privatizations effected during Mrs. Thatcher's governments from 1979 to July 1987. There were 33. Of these I have been responsible for about a third. Significantly, of those privatized by way of contract, i.e., not by direct flotation, my efforts count for over half. In addition, I made about six other smaller sales in this period and since July 1987 The Rover Group, in order to concentrate on its core passenger and special vehicles business, has sold a further 11 businesses, three of which were foreign holdings.

I refer to this first of all to indicate that the British government's policy of privatization continues to be alive and flourishing, and second to say that the act of sale or flotation of state businesses, privatization, is but the last step in the chain of policy implementation.

Long before the fact of privatization, many of the businesses, and all of those with which I have been associated, have required varying degrees of change in order to revive their fortunes and prospects.

With a friend and former colleague from Canadian Pacific, Peter Mills — now vice-president and general counsel of Woodbridge Company, the Thomson holding company — from 1971 for four years we carried out what I believe to be the first successful attempt in the British state sector to change and revive a business. Following years of mounting losses, in one year the business in question, Cammell Laird Shipbuilders, was returned to modest and continuing profitability on the back of product redirection, moves toward greater efficiency and a fresh commercial focus. Later, in 1985 I returned that business to the private sector. Now 90 per cent of its employees are shareholders. It is profitable and has an order book stretching at least three years ahead.

At the time I perceived the national culture, or mind set, predominantly to be one of "collectivism." In other words, a view that government could do for people what they could not or would not do for themselves. Such a culture tended to reject, among other things, industrial change and moves toward business revitalization. This rejection was despite the blindingly clear messages which were coming from the world marketplace. For the one or two instances where change was not only attempted but achieved and the businesses revitalized, there were dozens where the concept of change and the need for revitalization were talked out rather than acted out.

By the time Mrs. Thatcher moved into No. 10 Downing Street in 1979, following the strikes and shortages of what, courtesy of Shakespeare, is now known as "the winter of discontent," the situation in and the cost to the Exchequer of the state businesses in general and the state industrial sector in particular were enormous. The Conservatives' pre-election platform of denationalization, progressively translated into the post-election program of privatization, became during the Conservatives' second term an increasingly popular policy politically, which popularity continues. And of course the concept of privatization has been copied worldwide.

The success in political terms through, for example, wider share ownership and the fairly immediate benefits for taxpayers overall by virtue of progressively lower tax rates, accrue from the fact of privatization. The longer term benefits lie in the revitalization of the businesses and hence their ability to contribute to the economy. This revitalization and the changes which have taken place had first to be conceived and then managed before the businesses were suitable for flotation or sale.

Effective management of change probably is the most difficult task which faces any manager. Change is threatening to employees, frequently destabilizes commercial relationships, including with customers and, internally, at least initially, has few advocates. Sadly, too often change is driven only by financial necessity. If the external environment is not conducive to the encouragement of competition and excellence the task becomes even more difficult.

Returning to Britain in 1983, after a six-year absence, it was hard to believe that one was working in the same country. Some signs of the collectivist culture were still there — to some extent they still are — but general recognition of the need to change, to adapt, was obvious everywhere. And this recognition was and is resulting in action.

Structural changes helped. For example, relationships between employers and trade unions were placed in a legislative context which imposed duties on the unions, required of them a real degree of responsibility and devolved considerable rights to individual trade union members. In passing, let me observe that further industrial relations legislative developments are currently before the British House of Commons. Further, the government not only had committed itself to getting inflation under control, all governments do, the Conservative government under Margaret Thatcher did just that, and promptly too. In the public sector of the economy, finally there was an appreciation on the part of employees at all levels that the fact of state ownership no longer provided a safety net for the inefficient and the noncommercial. In other words, competitiveness had become the watchword for all British business — private and public sector alike.

The policy of privatization provided a cutting edge. Obviously, without clear performance improvement and some reasonable prospects, state businesses would have no attractions to any investor, institutional or private. Mrs. Thatcher was and is determined that the state shall not remain in the ownership of businesses.

One of the many initiatives taken by government to give effect to their policy of privatization was to replace, where necessary, custodial-type public sector business bosses with managers professionally committed to doing what had to be done commercially and who were attitudinally attuned to the principle of returning state business to private ownership. A number of the leaders of state businesses when Mrs. Thatcher was first elected had been chafing for years under clumsy state controls. They were keen for change and able to drive it through. Others, less keen and able, were replaced with a wide mix of new management having in common only the two attributes: managerial professionalism and commitment to privatization.

When these various appointments at the top of the state businesses were confirmed or changed, the next step was to agree what had to be done to revitalize the businesses, how long it would take and how much it would cost. Once this was settled, the managers were left to get on with the job. Of course the businesses were monitored against the agreed objectives, but there was no interference, no party political considerations intruded and a proper, recognizable responsibility-authority relationship was developed and normal managerial accountability was put in place.

Managerial performance was critical both in attitude and function. This distinguished the new management from the old. No longer was there the intended ambiguity which sought to blur politics, social engineering and business management. Now, business is business. The dominant political position is that politics is to stay out of business. The government's position is that social considerations, other than those of good corporate and private citizenship, are for government.

These clarified relationships naturally forced change — change to meet commercial criteria. As change was wrought, so businesses were revitalized. The pace of change differed with each business. Some could be and were readied for privatization virtually in months, others took years. Some still remain in a preparatory state.

A good current example of change and revitalization in a British state business which is still in its preparatory, pre-privatization stage is my own company, The Rover Group. Rover is somewhat different from most of the other remaining British state business holdings. It is not nationalized; its affairs are not governed by an Act of Parliament. It is a Companies Act company. Rover shares are listed on the London Stock Exchange and there are some 60,000 private shareholders. Indeed, despite the so-called October "meltdown," the share price stands currently at approximately double its 1987 low, and before October was some 3½ times that low! However, the British government owns some 99 per cent of the issued shares. The government is determined to privatize and I am there to help achieve that goal.

For a number of years escalating losses were the standard fare for the Group previously known as British Leyland, and 1986 was no exception. Asked by Mrs. Thatcher to "go in and change things," I joined in May of that year. Although the 1986 results were awful, by the end of the year we had a plan up, running and starting to show results. By selling off 16 non-core businesses, we raised about Can$300 million in cash and in two critical situations stemmed cash hemorrhages. To give some idea of the scale of the disposals, they accounted for approximately one-third of 1986 total revenue or some Can$2.4 billion out of Can$7.5 billion. The management structure and some personnel were changed and the focus of the business shifted to the marketplace from that of engineering for engineering's sake. It is early days yet and the 1987 results are not all in, but the preliminary indications are good.

Despite, by virtue of the disposals, the reduction in sources of revenue generation, our revenue from the core businesses alone will be almost up to 1986 levels at over Can$7 billion, an improvement of almost 22 per cent. Exports now account for one-third of total sales and at Can$2.5 billion are up 36 per cent over 1986. In unit terms exports are up about 25 per cent. Back of these figures is a more telling story. The 1986 comparators included commercial vehicle production. When this is stripped out to compare the performance of the retained core businesses only, export revenue is up 69 per cent generated by a 27 per cent increase in unit sales.

All in all, Rover for 1987 will have had its best financial performance for nine years. Its Land-Rover subsidiary, which will celebrate its 40th birthday next April, will have had its best results ever. We have already announced that the Group will show an operating profit before interest and taxation, the first for quite a while. During 1988 we will start to plan for the return of the Group to full private ownership. I have indicated to the Prime Minister, and publicly, that I believe this to be possible in the life of the current parliament, say by 1992.

Once upon a time between 1983 and 1986, in my last British government job, I was, by virtue of my position, a member of a seemingly vast organization called The Nationalized Industries Chairmen's Group. Now, in the wake of the various privatizations to date, that particular club is a very pale shadow of its former self and its ultimate demise is clearly in the cards. I said at the outset that during my early days working in Britain in the 1970s that I perceived the general state of mind to have been one of collectivism. If that were true, and in my opinion it is, as an overall assessment it is no longer true. Individualism has replaced collectivism. People now know what the state can and can't do and, under the present government, what the state will and won't do. This concentrates the mind powerfully.

While I have focused on change, revitalization in and the privatization of British state business, the impact of this and related policies has reached well beyond the public sector. Currently Britain is enjoying its strongest economic performance since the Great Depression. The growing prosperity is resulting not only from the revitalization of British business at home, but also the contribution being made by growing British investment overseas. The other side of that coin is the growth in inward investment in Britain. Britain is now the leading investment base for companies moving into the EEC from outside with, for example, over one-third of U.S. investment in the Community being located in the U.K. and almost a third of Japanese EEC investment. Change has taken place and continues in British business, in state-owned, former state-owned and in both new and long-standing private sector businesses. Business and attitudes toward business in Britain are revitalized. But don't take my word for it — ask the Americans and the Japanese.

The appreciation of the audience was expressed by Blake C. Goldring, a Director of The Club.

Susan Holloway

Former Olympic Competitor
Program Coordinator, Olympic Athlete Career Centre

Richard W. Pound

Vice-President, International Olympic Committee

WINTER OLYMPICS 1988

January 14, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

To the ancient Greeks, Mount Olympus was the home of the gods. Olympia became the site of a festival to honour Zeus and the gods. Eventually, around 776 B.C., the festival became a sporting event and the Olympic games came into being. The games continued until A.D. 393 when a Roman emperor banned the games as a pagan show. A Frenchman, Baron Pierre de Coubertin, conceived the idea of reviving the Olympic games and his efforts succeeded in 1896 when the first modern Olympic games were held in Athens.

Today we do not worship Zeus but we do have respect and admiration for the athlete and we do try to emphasize participation in and enjoyment of sport as opposed to winning the sporting event at any cost.

The Olympic flame has been carried through Toronto, is now being carried in northern Ontario and will reach Calgary by February 13 when that city plays host for 16 days to the XV Olympic Winter Games, the first Winter Olympics to be held in Canada. The games will attract 1,800 competitors from 51 countries, six times as many competitors as in 1924 when the first Winter Olympics were held. Since that date, Canada has won 13 gold, nine silver and 16 bronze medals in these winter games.

Susan Holloway, the fairer of our two speakers, was born in Halifax, Nova Scotia, and grew up in Ottawa. She earned a fitness and health certificate from Simon Fraser University and a physical education degree from the University of British Columbia. She competed on the Simon Fraser University swimming team and was on the University of British Columbia cross-country running team.

Miss Holloway was a double-threat Olympic athlete, competing in both cross-country skiing and kayaking. She accomplished this amazing feat in 1976 being the only woman ever to do so. In the Winter Games in Innsbruck, Austria, she was a cross-country ski competitor. In the Summer

Games in Montreal she competed in kayak. In 1980 she qualified to compete in kayak at the Moscow Olympic Games, but the Games were boycotted by Canada. However, four years later she competed in the Los Angeles Olympics, winning silver and bronze medals in kayak competitions.

Miss Holloway is currently program coordinator for the Olympic Athlete Career Centre in Toronto where she develops career planning for national team athletes. She is also a director of the Toronto, Ontario Olympic Council which is promoting Toronto as the site for the 1996 Olympic Games.

Richard Pound was born in St. Catharines, Ontario, and educated in Montreal, obtaining a commerce degree from McGill, an arts degree from Sir George Williams and finally in 1967, a law degree from McGill University. Mr. Pound became a chartered accountant in 1964 and was called to the Quebec and Ontario bars.

Somehow or other, Mr. Pound found time to be a swimming competitor. He was the Canadian, provincial and intercollegiate champion, 1958 - 1962; a member of the Canadian swimming team at the 1959 Pan-American Games; a double Olympic finalist at the 1960 Olympic Games in Rome and a winner of one gold, two silver and one bronze medal at the 1962 Commonwealth Games in Australia. Mr. Pound is a member of and active in a number of professional and sporting groups. He is vice-chairman of the McGill Athletics Board; a governor of McGill University, and a director and executive committee member of the Canadian Olympic Association.

Mr. Pound is a partner with the legal firm of Stikeman Elliott in Montreal and in 1987 was elected a vice-president of the International Olympic Committee and a director and member of the Organizing Committee for the XV Olympic Winter Games in Calgary.

Should you be wondering about my own athletic ability, my rugby football days ended in St. Michael's Hospital where the nuns criticized me for having played rugby on a Sunday. I did not win any medals; my sole athletic career reward (or punishment for playing on Sunday) was marriage to my nurse!

Ladies and gentlemen, please welcome two first-class athletes, both eminent in their chosen professions, Susan Holloway and Richard Pound, who will address us today on "Winter Olympics 1988."

Richard Pound

The title of my address today—"Is There Life After Avery Brundage"—was chosen only partly in jest, because there *was* a considerable body of opinion that when Avery Brundage ceased to head up the Olympic Movement as President of the International Olympic Committee, it marked at least the end of an era, if not the Olympics.

Brundage, as many of us here today will remember, was an indomitable defender of the principles of amateurism. He held the Olympic Movement together by the sheer force of his personality, during a difficult period in which the Olympic Games might well have collapsed without the presence of this domineering idealist. He was not afraid to use every bit of his authority, and often more, to pursue his vision of the Games.

Brundage was President of the IOC for 20 years, from 1952 to 1972. This was a period of rapid change, of evolution and even revolution. But, throughout this period when the world was recovering from the ravages of World War II, was living on the brink of war in the Far East, Middle East and Europe, and was trying to come to terms with the dyspeptic humours of the superpowers, Brundage, and his conception of the Olympics, were immutable. The Games were for amateurs. Professionals were anathema. "Trained seals" was one of Brundage's least acerbic descriptions of professionals. Promoters were even worse. His implacable vision of the purity of the Games was completely unaffected by the changes which everyone around him could see and which athletes actually experienced in their daily competition.

Brundage had the strength, however, to hold the Games together in Mexico in 1968 until a domestic truce was achieved in a country filled with explosive turmoil, which truce enabled the Games to take place. He had the courage (and I believe history will come to recognize it as courage) to say the Games must go on following the tragic events in Munich in 1972.

But even Brundage was unsure of what would follow. He predicted to his successor, Lord Killanin, that the 1972 Olympics would be the last. Many agreed with this dire prediction.

Well, here we are, 16 years later. Yet another set of Games is about to begin. The greatest-ever Summer Games are only eight months away. Clearly there is life after Brundage.

It is, however, a different life. The Olympics have come of age in a complex and demanding world. At the sporting level, they have evolved to reflect sport as it is actually practised throughout the world and have ceased to represent an archaic view of what might have been appropriate in the Victorian era.This evolution has taken time and has been the result of the skills of Brundage's two successors as president of the IOC.

Lord Killanin was a softer, more pragmatic seeker of consensus. He recognized that change was necessary and encouraged a more flexible response to the many competing sport interests which were at play. The role of the International Sports Federations and the National Olympic Committees was allowed to expand. Tacit recognition was given to the fact of life that a single eligibility rule could not possibly apply to all 27 Olympic sports. An Olympic Congress was held, the first in 43 years, to give everyone a chance to speak and to propound new ideas. At the sporting level, there was new confidence that the tradition could continue, but that it would adapt to real life.

This momentum was continued under Juan Antonio Samaranch and the practical result is that the eligibility rules for the Olympics are now the same as for the World Championships. Each sport will be permitted to develop eligibility rules which are most appropriate to the development of that sport. The IOC will no longer try to turn the clock back. "Shamateurism" will no longer be a blot on the Olympics.

On the political front, there has also been a tremendous amount of progress, although at considerable cost. Killanin weathered the uncertainties that surrounded the organization of the Montreal Games in 1976. Although ultimately successful beyond all expectations, these Games were beset by enormous financial and logistical difficulties that caused concern until the last minute. The Games themselves were a delight and the Olympic world still remembers them as the best ever organized.

The Games were marred, however, by a boycott of several African countries, which left Montreal on the day before the opening ceremony. They were protesting the participation of

New Zealand, which, they said, had sporting ties with South Africa. The Canadian government refused to allow athletes from Taiwan to compete under the name of Republic of China, the then recognized description of their territory. In my view, the IOC was less than adept in the face of these crises. The first should never have been allowed to become a crisis and the second could have been resolved by firm action on the IOC's part as soon as the issue arose.

Killanin also had to deal with the Moscow Games in 1980. Leaving aside for the moment the political crisis, to which I will return, the sporting response to the Moscow situation was virtually unanimous. All international federations and all national Olympic committees not prevented by their governments from so doing were determined that those Games must proceed. Every single member of the IOC supported that decision, including the two Canadian members. The Olympic family emerged stronger than ever before. This strength was, in considerable measure, responsible for the failure of the 1984 boycott to attract any support outside the Soviet bloc.

On the political side, the IOC was somewhat better in 1980 than it had been in 1976. Once the Carter boycott was established as a policy of the U.S. government, the IOC worked quite effectively to adapt its rules so that many countries could still compete despite U.S. pressure on their governments. It was a good, but belated, response. What we failed to do was recognize early enough that President Carter's knee-jerk reaction to use the Olympic issue as part of a foundering re-election campaign would become a full-blown U.S. foreign policy, and to intervene at once to try to reverse that decision, or, at least, to start the damage control operation sooner.

Killanin's term ended in Moscow in 1980. Replacing him, the IOC chose, for the first time in its history, a professional diplomat. Juan Antonio Samaranch represented the newest phase in the IOC's coming to terms with its complete environment. Anyone who still thinks that sport and politics don't mix is dreaming in colour. It may be argued with some force that they should *not* mix and perhaps in an ideal world they might not. But in our world they do mix. If we do not recognize this and respond accordingly, there can be no long-term future for international sport. In electing Samaranch as president in 1980, the IOC acknowledged that it had learned another lesson. Life after Brundage required that the Olympics must exist together with governments and that they cannot be totally isolated from political reality.

This is a far cry, however, from accepting the proposition that politics should dominate the Olympics. That has never been the IOC's view and will, in my opinion, never become our view. Sport and politics must coexist. The IOC encourages its NOCs to work cooperatively with their governments. It encourages governments to support the autonomy of sport organizations. It stresses that the Olympics, both as a concept and as an international expression of goodwill, are indeed unique; that they should be fostered rather than frustrated; that, particularly at times when international relations are strained, the Olympics can make a contribution to international understanding which might not otherwise be possible.

It is in this arena that Samaranch excels. He is at home in the environment and understands the art of diplomacy. He knows the limits beyond which it is unreasonable to expect success. And perhaps most importantly, he is fully aware of the considerable moral power of his position as president of the IOC and what it represents. In virtually every country which he visits (some 155 since he became president), he meets with the head of state and the political leadership. The result is that if problems develop, he is in a position, usually before they become acute, to call upon a high-level personal relationship to intervene to resolve the issue.

Some examples of the IOC's increased effectiveness in these areas can be seen over the past few years. The People's Republic of China and Taiwan have been provided with a formula, designed by the IOC, which enables both to participate within the Olympic Movement. The IOC is the only organization in the world to have found a workable formula for the China situation, which does not require the expulsion of either the PRC or Taiwan. A second example can be seen in the damage control following the Soviet decision to boycott the 1984 Los Angeles Olympics. In the end, only the Soviet bloc failed to participate, despite a serious lobbying effort in the Third World for support of the Soviet position. Even the famous east bloc solidarity was cracked, with the participation of Romania and Yugoslavia. A third, and more contemporary example is in relation to the Seoul Olympics this year.

In retrospect, one might well question the IOC's decision in 1981 to award the Games to Seoul, but there were, at the time, compelling reasons to do so. Once the decision had been made, however, the real problem became how to maximize the chances for success. The situation in Korea is, not to overstate it, somewhat delicate. Many countries, some of them very important within the Olympic Movement, have no diplomatic relations with South Korea. The Korean peninsula itself is potentially very unstable. The Socialist countries are generally aligned with North Korea. There have been concerns about the domestic stability within South Korea.

Against this complicated background, the IOC has worked virtually day and night to create the conditions which will enable the fullest possible participation in the 1988 Games. Within the international sport organizations, the ranks have closed very firmly in favour of supporting Seoul. The invitations to participate were sent by the IOC rather than the Korean Organizing Committee, so that the distinction of saying no to the host country rather than to the Olympic Movement is no longer available. We have agreed to extensive and protracted negotiations with North Korea to consider the possibility of organizing some events in the North. We did so without much realistic hope that a compromise would actually be achieved, but to demonstrate to the Socialist countries that we are sensitive to their problems and that we were prepared to be as flexible as possible in the face of an obvious difficulty facing them.

The results to date are very clear. At the time of writing these remarks, we have already received acceptances from more than 140 countries—greater than the record number which attended Los Angeles in 1984—including East Germany, Hungary, Poland, the Soviet Union, Yugoslavia and Bulgaria. Every indication is that we will also hear positively from the balance of the Soviet bloc. China has indicated it will attend.

Now, as Yogi Berra is reputed to have said, "It ain't over till it's over," but there is certainly cause for cautious optimism. And the basis for such optimism has been the increasing efforts of the IOC to recognize the political sensitivities that are in play and to work positively to find solutions, rather than merely to rant and rave that there is no connection between sport and politics. We are using political means to solve political problems so that the youth of the world can benefit from these solutions and have the opportunity to meet together in the greatest sporting events in history.

So, yes, there *is* life after Brundage. Not life as he wanted it, but life that is right for our times, and being right for our times, better than ever before.

Sue Holloway

I'm relieved to hear there is life after Avery Brundage since that was when I was competing. I would hate to think the whole thing was a dream. I thought I would share with you my experiences of what it was like to be an athlete during that period.

My involvement in organized sport started at age four and I was still young when I decided I wanted to compete at the Olympic Games. I eventually realized that dream when I made the Olympic ski team and the Olympic canoe team in 1976.

Competing as I did in low-profile sports, the Olympic Games are a major shock to your system. Being the focus of so much international attention and trying to compete with all the hoopla that is the Games going on around you can detract from your performance.

For instance, living in the Olympic Village I often thought I was living a dream. There were discos and dancing every night, movie theatres, rock concerts, shopping and a 24-hour cafeteria—well, it was my idea of heaven!

But competing as the host nation, like our athletes this winter in Calgary, definitely has its benefits. You can speak the language and have familiar things around you. In Montreal I really felt like the country was behind me and I got a lot of energy from the spectators. Athletes are in an odd position because on the one hand you compete for yourself as an individual but, as Mr. Pound has explained, "nationalism" is very important to the spirit and ritual of the Games and can play a large part in the athlete's performance.

I also saw my first demonstration of politics at work in sport in Montreal. As we were checking into the village we saw our fellow athletes from the African nations with their bags packed heading back home, never getting their chance to compete. I certainly never imagined that four years later I would be in a similar position.

After '76 I decided to focus on canoeing and set my sights on the 1980 Olympic Games. This fortunately coincided with increased funding for amateur sport from the government. What it meant to me as an athlete was that I had my education and most training expenses paid for. It also meant I could prepare with the intensity necessary to be my best in 1980. It was around this time that the "athlete code" or eligibility opened. While this helps high-profile sports, it made little or no difference to my sport.

When 1980 finally arrived I felt good, until April when it was announced that Canada would not send a team to compete in Moscow. I was completely shocked. When that wore off, I was angry, then depressed. All of us had a reason why the boycott hurt us: for some it was their last chance, for some it was their only chance, for me I thought it was my best chance. I was 25 and I was fast. But it made me realize in a very personal way how vulnerable and unprotected athletes are. Most of us felt used and totally powerless.

After the boycott I decided I still wanted to stand on the Olympic podium. By that point I had explored most methods of training my body. I was looking for other ways to improve performance. Like many other athletes, I turned to specialists in other fields for assistance: nutritionists, sports doctors and scientists. This trend toward seeing the athlete as a total person I think is very positive. The biggest help for me was our sport psychologist. He helped me cope with the incredible stress and pressures of competing and helped develop a plan and an attitude that would get me to the podium. On August 10 I arrived. If 1980 was the low point for me, crossing the finish line in L.A. with my family and friends there to share the moment was definitely the high point.

In spite of or because of all the political changes Richard described, the Olympic Games continue to be the ultimate sport experience for most amateur athletes. Continued government and corporate support are important and will enable our athletes to pursue and achieve this exciting dream. I hope you enjoy sharing the dream by following our athletes this winter in Calgary and next September in Seoul.

The appreciation of the audience was expressed by H. Ian Macdonald, a Past President of The Club.

Michael Filey; The Hon. Lincoln M. Alexander, Lieutenant Governor of Ontario

Sonja Sinclair, President Canadian Club; John D. Elliott

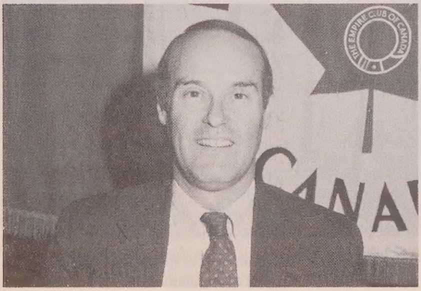
Barber Conable; Margaret Scrivener, a Director of The Club

Ambassador Clayton Yeutter; Nona Macdonald, a Past President of The Club

Arnold Edinborough; Ed Mirvish, Executive Producer, The Royal Alexandra Theatre

Simon and Constance Reisman with family, Joseph, Anna and Harriet

Ronald Goodall; F. W. Douglas McAndless and Mrs. McAndless


THE EMPIRE CLUB OF CANADA
CANA

Peter Bijur

Paul Godfrey, Publisher, The Toronto Sun; The Hon. Monte Kwinter, Minister of Industry, Trade and Technology; The Hon. Barnett Danson, a Director of The Club

The Hon. David Peterson; Charles C. (Bud) Hoffman, A Director of The Club

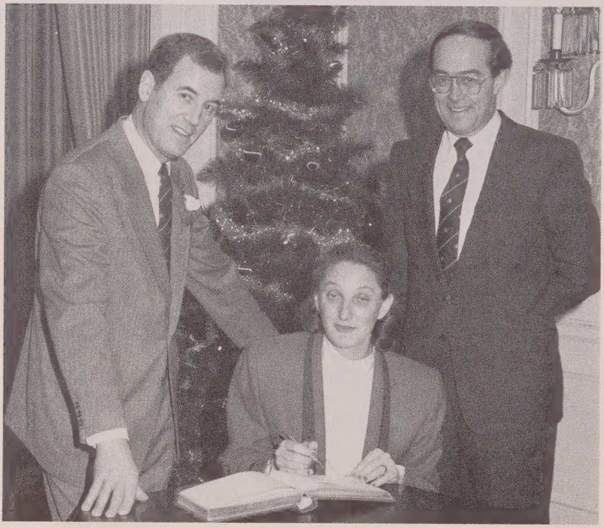
Russell Bannock, President Bannock Aerospace Ltd., John MacBeth a Director of The Club, Frank Shrontz

Ronald Goodall; Richard J. Schmeelk; Howard W. Hunter and son, Peter W. Hunter, a Director of The Empire Club Foundation

Edward Greenspan; The Hon. Mr. Justice Joseph Potts, a Past President of The Club

Fraser Kelly; Dennis Flynn, Chairman Metropolitan Toronto Council and Honorary Secretary of The Club

Ronald Goodall; The Hon. Grant Devine



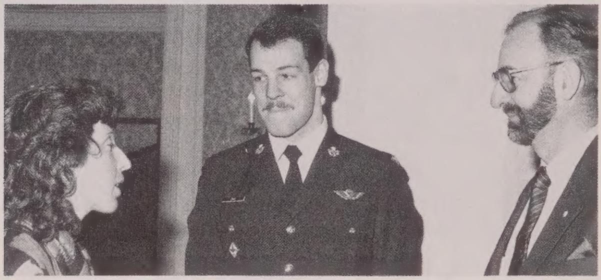
Ronald Goodall; Maureen Farrow; Harry Seymour, a Past President of The Club

The Hon. Lincoln M. Alexander, Lieutenant Governor of Ontario, Ronald Goodall

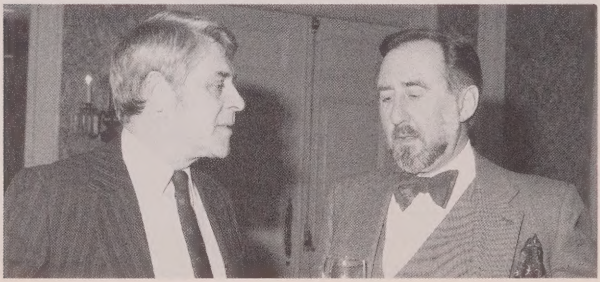
The Xmas Pudding

The Hon. Lincoln M. Alexander chats with Carlyle Dunbar, a Director of The Club and son, Gavin

Ronald and Grace Goodall with family, Richard, Lise-Ann and Ross



Diana Chant, Treasurer of The Club, Captain Michael Day, and father J. Graham Day



Bryan Sparrow, British Consul General; Montague Larkin, a Director of The Club

Susan Holloway; Richard Pound

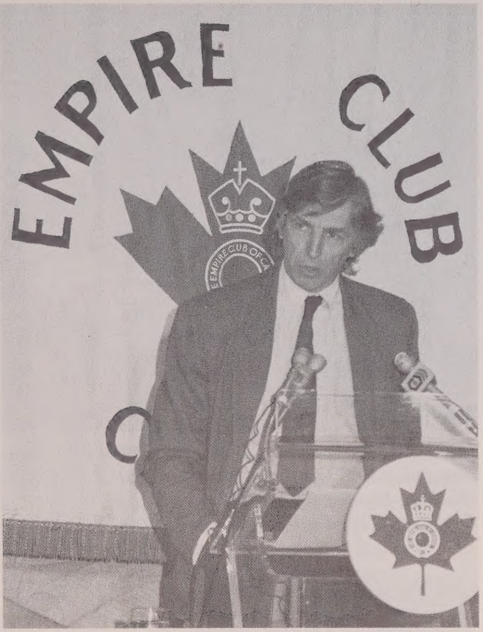
Ronald Goodall; Paul Martin, Jr.

Michael MacKenzie; William Farlinger, Chairman Clarkson Gordon

John F. Godfrey; and father, The Hon. John M. Godfrey, Barrister and member of the Senate of Canada

C. Edward Medland, Chairman, Wood Gundy Ltd; John D. Herrick, a Vice-President of The Club, Richard C. Meech, Senior Partner of Borden & Elliot; T. Don. Stacy

Harry H. Wilson, Past President of The Canadian Club and Mrs. Harry H. Wilson, with son, The Hon. Michael Wilson

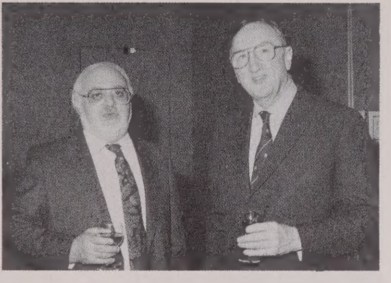


Barton Myers

Pierre Peladeau; Harold V. Cranfield, a Past President of The Club

Ronald Goodall; Robert Lewis, Managing Editor Maclean's Magazine; Ron Osborne, President and Chief Executive Officer, Maclean Hunter; Donna Scott, Publisher of Flair magazine and a Director of The Club; Elizabeth Watson, Editor Ontario Medicine

The Hon. Perrin Beatty, P.C., M.P.; The Rt. Hon. The Lord Carrington; Ronald Goodall



Gary Posen, President, Canadian Institute for International Affairs; Reginald Lewis, a Past President of The Club

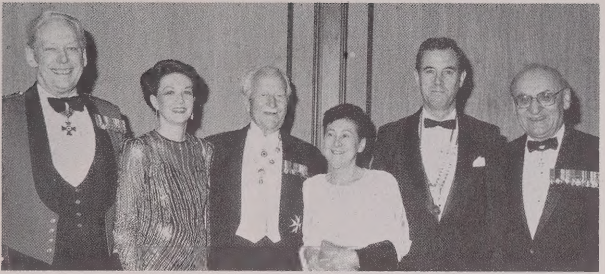
Pierre Jeanniot; John Freyseng, a Director of The Club and Mrs. Freyseng

Nona Macdonald, a Past President of The Club, Alan Eagleson, Chief Negotiator for International Hockey for Canada; Veronica Tennant, Principal Dancer, National Ballet of Canada; Alexei Alexeievich Rodionov

C. Warren Goldring, Chairman AGF Management Limited; Charles Ellis; Blake Goldring, a Director of The Club

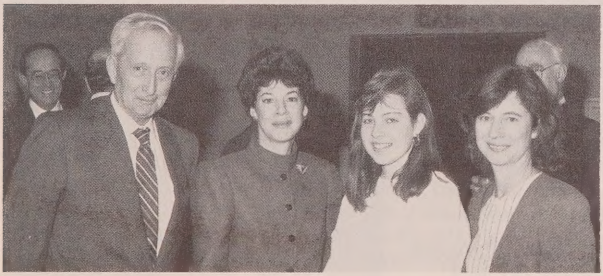
John Foster Fraser

Sheila Copps



Bruce J. Legge, Catherine Charlton, Past Presidents of The Club; The Rt. Hon. Roland Michener, Honorary Chairman of The Club; Grace and Ronald Goodall; Stephen Andrunyk, a Past President of The Club

Tony and Mary van Straubenzee; and Angus and Lorna Scott



Stephen Jarislowsky; sister-in-law Bobbie Merrilees; daughter Alexandra and Mrs. Gail Jarislowsky

Leland Ausman, Archivist; Gordon Steele and Dr. Clarence Crummey, Directors of The Club

Catherine Charlton and the late William Karn, Past Presidents of The Club

Sir Arthur Chetwynd; Sydney Hermant, Past Presidents of The Club

Paul Martin, Jr.

Chairman and Chief Executive Officer
Canada Steamship Lines Inc.

THE ROLE OF GOVERNMENT IN THE ECONOMY OF THE '90s

January 21, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

Among its presidents, The Empire Club can count several fathers and sons, a not-too-surprising fact given the 84 years or so lifetime of this Club. In fact, one of these sons, Bredin Stapells, is at this head table. It would appear to be somewhat unusual to have a father and a son address this Club. That particular situation arises today. Our speaker's father, Paul Martin, addressed the Club on four occasions, one occasion being unique in that the address was heard over the radio telephone from Ottawa. I am delighted to note that Paul Martin, Sr., is with us today. This father-and-son team gives us an example of what Mathew Henry described in the early 1700s as, "Men of polite learning and a liberal education."

Another unusual situation arose today. I read a review of Mr. Martin's speech in *The Globe and Mail* this morning. I almost fainted. I thought it was Friday and that I had forgotten to come here today!

Paul Martin was born in Windsor, Ontario, and educated at the University of Toronto, earning degrees in history, philosophy and law. In the 1970s, he became a vice-president of Consolidated-Bathurst Inc. and a vice-president of Power Corporation of Canada. At present, he heads Canada Steamship Lines, a company which includes among its affiliates Voyageur Enterprises Ltd. and Canadian Shipbuilding & Engineering Ltd.

Mr. Martin is vice-chairman and governor of Concordia University and a founding director of the North-South Institute and The Canadian Council for Native Business. He is a director of a number of organizations which include the Canadian Council of Christians and Jews, Redpath Industries Limited, Imasco Limited, and The Manufacturers Life Insurance Company. Mr. Martin is married, and he and his wife, Sheila, have three sons.

Rumour has it that our speaker plans to seek a nomination in the next general election. The success of a venture of this nature will, of course, depend upon the venturer's ability, popularity and experience. The politician is a lawmaker and our speaker's qualification as a lawyer obviously provides some experience necessary for this venture.

Before embarking on his management career, our speaker spent several years as a merchant seaman on the Mackenzie River, in the High Arctic and on the Atlantic Ocean and as a roustabout in the Alberta oil fields. We are told in song that "All the nice girls love a sailor." Our speaker appears to have the popularity necessary for this venture; perhaps one-half of the voters are already swayed.

I was not entirely sure what a roustabout did so I resorted to a dictionary to enlighten me. I found three definitions: 1) a deck hand or waterfront labourer; 2) an unskilled or transient labourer who does odd jobs; and, finally, 3) a labourer in a circus. The final definition worried me. However, when I considered the need for political ability in this venture, I concluded the ability of a roustabout should stand our speaker in good stead should he become a member of Her Majesty's Loyal Opposition and sit in a parliament mismanaged by another party. Your success in seeking a nomination and a seat, this political venture, seems assured and I wish you well in it.

Ladies and gentlemen, please welcome Paul Martin, Chairman and Chief Executive Officer of Canada Steamship Lines Inc., who will address us on "The Role of Government in the Economy of the '90s."

Paul Martin

In the first of four speeches to The Empire Club 33 years ago, my father spoke to you on the subject "Canada — A World Partner" — a discussion concerned primarily with this country's role in the NATO alliance and in the debate on nuclear disarmament. *(Plus ça change . . .)*

Today I would like to pick up on the title of his remarks. However, in this instance, I will endeavour to talk to you not about international affairs but about the kind of world *economic* environment we find ourselves in and more specifically about what "ought to be" the changing role of government within that environment.

I will not burden this audience with a recitation of the effect of change upon our industrial activity. (I use the word industry here as a shorthand to include both agriculture and the increasingly important service sector in addition to manufacturing.) We all know the words of that tune. Suffice it to say that the change involved has manifested itself in two fundamental ways: first, in an increasingly globalized economy; and second, in a steady decline in the value of raw materials relative to manufactured goods and the technology embodied in both goods and services. So far as a nation we have adjusted well. However, the real turmoil lies ahead.

The process of globalization is still in the adolescent stage and while many argue that the only problem for our natural resources is their cyclical nature, a more realistic projection is that the long-term trend is one of gradual decline in demand! Our prime economic objective, therefore, given these storm warnings, is to devise a strategy for maintaining our fair share of the world's industrial activity and in doing so there are two challenges which must be met.

First, there is the challenge all countries have of gaining foreign market access. In Canada, the current debate appears focused only on the U.S. market. This is more than just a little shortsighted. Nobody can seriously argue that we do not require stable and assured access to the American consumer. However, there is no guarantee that we will hold onto even that market if by default it alone becomes the limit of our vision. The U.S. market may be where the battle is being fought now. However, if we are going to hold our own against the Europeans and the Asians in that market, it will only be because we've taken the fight to them on their own turf as well.

The next challenge, one of even greater importance for Canada, arises out of the special problems facing an industrial sector whose roots are found largely not in indigenous activity but in the enterprise of others. Foreign firms, first British, then American, now Japanese, have brought us their ideas and technologies. Albeit gaining access to our market, they have also provided us with an invaluable industrial base. Now, however, with or without U.S. free trade, increasing freer *world* trade means that Canadian industry is going to be exposed more and more to open global market forces.

Thus the first question we will have to face is, assuming parity in productivity and a higher dollar, will our industrial base stay with us, and of even greater pertinence, will our foreign-owned multinationals be not less apt than in the past to use Canada as a base from which to expand?

With this as background I would now like to discuss with you what ought to be the role of government in responding to the changes ahead, a role which we all know has been called into doubt by the excesses of the past. More specifically I would like to focus on the ways the federal government can encourage Canadian industrial activity which has the potential to grow multinationally. I would do so in two areas where I believe state support can be crucial: the first relates to the specific problems of Canadian-owned small and medium-sized business; the second deals with the way technological innovation comes to market.

Recognition of the tremendous potential inherent in entrepreneurial activity in an era of rapid change is the major discovery of the last decade. If we are going to see innovative new Canadian industries appear on the scene, it will be as a result of the drive and perseverance of the Canadian entrepreneur.

Thus the changing role for government I would address here occurs not because of the failure of the Canadian private sector but because of its potential for success. It is a role which arises once the individual entrepreneur has reached the takeoff point and must choose between the easier alternative of selling to an offshore investor on the one hand or taking the rockier path of seeking first expansion capital and second foreign markets on the other.

In terms of expansion capital, the traditional problem of public-sector funding of private-sector activity arises out of the natural reluctance to see government monies involved in the so-called picking of winners and losers. While understandable, this reluctance is nonetheless clearly counterproductive when dealing with Canadian companies that have achieved domestic success but have not surmounted the size hurdle required for foreign market penetration. The answer, however, lies not in the traditional approach. The landscape is littered with too many examples of the failure of conventional state intrusion into private sector activity.

There are, however, examples of independent management of quasi-public monies which might provide precedents worth following. One such example is Quebec's Caisse de Dépôt. I am not arguing that the country suffers from a lack of immediate venture capital. I do feel, however, that there is a shortage of long-term venture capital of major size — the kind required to establish smaller companies in foreign markets where the payoff requires more patience than the pressure quarterly reporting sometimes permits.

Quebec's tremendous success in developing a vibrant entrepreneurial economy from virtually a standing start over the past 20 years is due in part to the fact that the public sector through the Caisse de Dépôt has always been able to take a long-term perspective in supporting credible private-sector initiative.

The Caisse, the investment arm of the Quebec Pension Plan, has established, I believe, a new concept in the way the public/private-sector partnership can be developed. If the Caisse has been successful putting Quebec savings to work creating jobs and supporting Quebec entrepreneurs in the process, my first suggestion which I will leave with you would be to ask whether it is not possible to contemplate regional equivalents under the aegis of a redirected and *fully funded* Canada Pension Plan. In terms of job creation alone, this suggestion would provide thousands of hours of work as the various federal and provincial bureaucrats lock horns in negotiation. It might also give the medical profession some impetus as various provincial treasurers have cardiac arrest.

The second role mentioned earlier for government is that of facilitating the entrepreneurs' access to foreign markets. This will become crucial in the future when Third World purchasing power begins to take off as it will when reality forces a resolution of the debt crisis (perhaps as per the recent Mexican proposal).

The costs of marketing outside of North America are simply astronomical when compared to the much smaller incremental cost of selling into the U.S. — one obvious reason for our excessive dependence on that market. For instance, it consumed substantial resources for Canada Steamship Lines to attempt to enter the Chinese market. The problem was not that of financing the numerous visits required in order to make the initial contacts, nor even the periodic follow-ups. The problem is one of long-term staying power. I do not know if the Chinese have a proverb equivalent to "Out of sight, out of mind," but it certainly applies — as indeed it does in most countries.

A permanent office, fully staffed, is the only way of not being forgotten in the constant parade seeking to tap this most intriguing of offshore markets. There are over 200 Japanese private-sector offices in China, over 150 American, yet but a handful of Canadian companies on permanent location. The reason is not lack of interest, it's lack of size, of financial wherewithal.

But there is an answer and it isn't a new one. It began in 1895 with our highly successful trade commissioner service, which the government is attempting to cut back when in fact it ought to be increasing.

We seem to forget that where the Japanese and Koreans initially beat us was not in production, but in marketing. In China, there are only 11 trade commissioners. They are extremely competent and dedicated but simply insufficient in number to do the job. What if we had 100 trade commissioners in China, each with prime responsibility for perhaps five Canadian exporting firms, each a highly trained specialist. Think of how much more successful small and medium-sized Canadian business could be with this kind of continuity and engagement in such a market! Expensive perhaps! But think of the return; for this is how you will grow the Canadian multinational of the future.

So far in seeking to recast the role of government, I doubt if I have offended even Milton Friedman. Unfortunately, however, as we begin to discuss the process of technological innovation, one begins to tread a finer line.

There are three reasons for a knowledge-intensive industry to come into being or to locate in a given country and these appear to follow a sequential process. Phase one — the initial industrial implementation of a given innovation normally takes place where that innovation or process originates. That is obviously why Sony finds itself in Japan, IBM grew up in the States, and our own Connaught Labs lives here. In phase two development, some industrial activity is transplanted to locations which provide easier market access — IBM Canada, for example. And finally, in third phase activity, industry seeks to gain competitive advantage by moving large elements of its activity offshore to low-cost "copier" countries for eventual export back home and elsewhere.

Canada, in this cycle, has traditionally not generated a great deal of originating or phase-one activity. On the other hand we are not, nor should we ever want to be, a low-wage "copier" economy. To date, the emphasis in Canada has been on phase-two development, i.e., attracting other people's enterprise here originally to gain access to our market, occasionally to eventually expand abroad through a world product mandate. *This is precisely the segment of the economy which is most vulnerable to the global trends we have been discussing.*

Thus, the message for us is clear: Canada's industrial prosperity will increasingly depend on our capacity to develop our own phase-one industrial capacity. This is not just a matter of national pride. The issue is whether as a nation we will provide future generations with worthwhile employment or just jobs. *There is a tremendous difference between the two which government statisticians often seem to ignore.*

The answer lies not in targeting a random increase in R & D as was announced last week. The answer lies in a fundamental commitment to the development of an entirely new family of phase-one industries of the future: industries capable of developing into home-grown multinationals; industries capable of surmounting the challenge of global competition; industries capable of investing in innovation because the world market bears the costs of their research which is taking place here at home. The question is how do we do it?

Most of us are believers in less government being the best government. Most of us however are also pragmatists who recognize that the free-market ideology would be fine if the world were as we would like it to be, but that unfortunately while we may be moving into a free-market *trading* environment, we are certainly not moving into a free-market *industrial* environment.

The reality is that the so-called free market continues to be dominated by government intervention. While traditional protectionism, such as tariffs, is being reduced, our trading partners are honing more civilized ways of using government resources to achieve such public objectives as reducing the risk for technological innovation; encouraging such sectors as aerospace, biotechnology, computers that they see as critical to national growth. Our competitors are not boy scouts; they are using every lever possible to gain an industrial edge.

Examples of what have become a global pattern are multifold. For instance, MITI, the Japanese ministry of international trade and industry, conducts periodic reviews to select specific industrial targets and to plan ways to meet them. In 1980, MITI identified three areas of basic research necessary for industrial success in the 1990s: new materials, biotechnology, and electronic devices. The resulting research drew on the abilities of industry, the universities and the government in coordinated laboratory and research efforts, and set specific targets. You can be sure that when 1990 arrives, there will be new target sectors on the Japanese agenda that have hardly dawned on us here.

Similarly, some time ago Japan realized that robotic development would be needed to remain competitive as labour costs went up. MITI, in conjunction with the Japanese Development Bank, ensured this thrust by buying robots from manufacturers offering them to industry on short-term leases, with the option of returning them if they didn't work out. Not only did this give Japanese industry in general an enormous leg up, it meant that nascent robot manufacturers were guaranteed a market. In this way they could afford to tool up on a large-enough scale that unit costs were quickly lowered and a new Japanese industry came into being while the rest of us slept.

But of course, the Japanese are only the best at what the entire industrialized world practises as a matter of course. To the south of us, while making so much of our overt subsidies to disadvantaged regions or targeted industries, the U.S. retains and is building a huge array of barely covert subsidies to strategic industries through its military, space and other procurement programs. For instance, rather than waiting for market forces to react while Japan increases its industrial advantage, the U.S. government is proposing to provide over $100 million a year to a consortium of private sector companies called Sematech to force feed the development of semiconductor technology. Furthermore, as if the federal government's largesse isn't enough, in addition half the state governments in the union are offering enormous incentive grants to attract the consortium's physical facilities to their locale. Finally, under the terms of its government grant, the consortium, consisting only of the bluest of the blue bloods on the U.S. high-tech register, specifically excludes the participation of American-based but foreign-owned companies. Thus even in the home of the free market, ideology is expendable when the industries of the future are at stake.

In contrast to all of this, Canada's approach to government intervention appears cumbersome, is reactive and apologetic, and in the end our methods are simply obsolete. Yet the conditions are certainly present in this country for imaginative support policies across a wide range of industrial sectors. What is missing is leadership. For what is required to build the kind of strategic programs that have served our competitors so well is, quite simply, the will at the centre to show the way. *We are not talking about massive intervention, about propping up dying industries, about creating huge new bureaucracies. Quite the opposite, that's what we are trying to avoid.* That is the intervention of the present.

What we are talking about is providing risk-sharing assistance in sectors that government and business identify as key to national success. *What we are talking about is government accepting its responsibility for ensuring that the ingredients for industrial progress exist in Canada by using a variety of tools to ensure that the famous level playing field does exist.*

The first thing we must do is play to our strengths. As a nation we have made huge public commitments to transportation and hope to do the same for the environment, to pick two areas, for instance. These are the kinds of fields capable of being leveraged using the massive public funds already being spent to stimulate the creation of new technologies and new industries.

How? Perhaps by licensing to the private sector technology developed under government aegis; or by subcontracting R & D or again by new product development requirements being inserted in procurement contracts — in short, not just buying today's product but also tomorrow's breakthroughs.

For example: *We should be the world leaders in environmental control, not for its commercial possibilities but for our own sakes as members of the human family.* However, once we have embarked on the proper path public/private-sector cooperation becomes possible in many ways. For instance: 1) We might envisage a demand-driven exercise involving environmental megaprojects. A focused effort to clean up the nation's harbours would almost certainly, for example, have a galvanizing effect on a series of Canadian companies analogous to the effect the James Bay hydro development had on the growth of Quebec's engineering firms; 2) or again, we might consider licensing the government's existing data banks and store of skills in a multitude of areas such as chemical testing of water, pesticide testing in foodstuffs, toxicogenic management in environmental service.

All of these provide a nucleus around which an exportable technology can be derived much in the same way that the Americans built the world's largest aircraft industry using technology and contracts generated by that country's military needs.

Now no government program, however sophisticated, is a guarantee of success. We will have our failures, just as other successful industrial countries like Japan, Germany and the U.S. have had theirs. But one thing is clear. Without the dedication of the resources of government to the task in cooperation with the private sector as our competitors are doing, we will continue to be only buyers of technology, spectators to the rest of the world's innovation.

It is in this context among many others that I believe the current U.S. free trade agreement gives great cause for concern. The failure of the Canadian government to pursue the softwood lumber case last year to its logical conclusion through the courts may well have established some very unfortunate precedents in terms of the public/private-sector relationship.

As a result, that which we absolutely had to obtain in the free trade negotiations was a mutually acceptable definition of what constitutes a subsidy. (This is obviously a short form for a set of rules determining what is "fair trade.") For it is that definition which will determine the permissible scope of public/private-sector cooperation. Without that definition, the menace of U.S. trade harassment remains an omnipresent threat to Canadian innovation, to Canadian exports. Unfortunately, we did not get it. All we got was the promise to negotiate the definition of a subsidy over the next seven years.

By putting off possibly for that absurd length of time a negotiation of which industrial practices are fair and legitimate, we have put under a cloud the strategic support Canada requires for the kind of technological initiative that we have discussed here.

On the other hand, the United States has retained the levers it needs, to subsidize and direct its vital phase-one industrial activity. Indeed it must if it is to compete with the Europeans and the Japanese.

Almost any new technology developed in Canada has to look ultimately to U.S. markets, whereas U.S. companies can support such development in their domestic market alone.

(Access to the U.S. market is why we entered the negotiations in the first place. The fact that we did not get it and still signed the agreement is comparable to a general declaring victory and then ordering a full-scale retreat.) Thus, as a practical matter, pending the definition of what constitutes an allowable subsidy, Canada will be constrained, while the U.S. will not be. Nor will there be any pressure on the Americans to agree to such a definition. Indeed the current situation suits them just fine.

In the final analysis, what U.S.-Canadian free trade must mean if it is to make any sense is that a company in Nova Scotia exporting to California must be in exactly the same position as is its counterpart in New Hampshire which also exports to California insofar as the receipt of *comparable* government aid is concerned. That means for instance that neither is subject to countervail if it accepts a permissible expansion or re-equipment grant from its respective government. That is the guarantee we required and we did not get it. Thus at a very minimum, negotiations should begin immediately on the subsidy code, *for if they fail so does this agreement.*

What should be the driving force of the business-government relationship in Canada, as it is in most other countries, is a clear idea of the nation's industrial goals and the means of achieving them. This government has either gone into the trade deal without an industrial program in mind, or perhaps it is simply prepared to leave Canada open to existing U.S. trade remedy controls because it does not believe in industrial policy. In either event, the result is not freer trade. I believe in freer trade. This isn't it. This is *unilateral trade disarmament.*

The time has come to close. I began by saying that I wanted to examine what "ought to be" the changing role of government in the world market environment of the '90s. "Ought to be" because it appears on the whole that government has failed to exchange its old machinery for the newer more effective equipment needed, on the one hand, to further the rise of the Canadian entrepreneur, on the other, to develop a knowledge-intensive industrial base.

I recognize that there are certainly among us here today those who will disagree with me. Those who, in terms of the economy, would see the federal government confined to loose framework policies. In response, I would ask them to consider *what kind of a country we will have down the road* if, following the free trade agreement and Meech Lake, we end up with aggressive provincial governments, a passive centre and, increasingly, policy formulation being dictated by the United States.

I also recognize that in a short speech, and I fear that this one has already gone on too long, one can barely scratch the surface of the subject at hand. But then again — you did invite my dad four times! Thank you.

The appreciation of the audience was expressed by R. Bredin Stapells, a Past President of The Club.

Michael Mackenzie

Superintendent of Financial Institutions, Canada

RISK AND REGULATION IN THE NEW FINANCIAL MARKETPLACE

January 28, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

For many years I have been very fond of mystery novels. I had difficulty laying down a book by Sir Arthur Conan Doyle, Agatha Christie or P.D. James until I found out "who did it." In fact in recent months I regret to say that I have spurned Canadian culture on Sunday night — one of the few nights I watch television — to immerse myself in British culture broadcast by an American television station. I watch the adventures of Agatha Christie's Miss Marple.

In the past few years I have found myself becoming addicted to another kind of mystery novel. I have become absorbed in the documented unravelling of financial transactions. The book *Public Money, Private Greed* by Terence Corcoran and Laura Reid detailed the drama of the Greymac, Seaway and Crown Trust affairs. The probing of the failure of the Alberta-based Commercial and Northland banks produced the Estey Report. In recent weeks, breakfast has taken a little longer as I attempted to follow the daily reports in *The Globe and Mail* on the review of the affairs of the Principal Group. However, I speculate that if our speaker today has the time, a multitude of controls could be designed to prevent the recurrence of problems peculiar to financial transactions and my reading would be limited again to the meandering of Sherlock Holmes and Hercule Poirot!

Michael Mackenzie received an arts degree from the University of Toronto in 1948 and an M.B.A. from Harvard in 1955. He became a chartered accountant in 1953 and was elected a Fellow of the Institute of Chartered Accountants of Ontario in 1965. In his career with the accounting firm of Clarkson Gordon, Mr. Mackenzie has held numerous responsibilities in auditing, consulting and taxation for a wide range of public and private-sector clients. In more recent years he has serviced several chartered banks, a mortgage loan company, a lease financing company, stockbrokers and the Bank of Canada. He has held consulting assignments in the area of financial analysis, planning and accounting matters for federal and provincial government agencies and other clients. He has served as an expert witness on accounting matters in a number of court actions and public regulatory hearings. Mr. Mackenzie served as member on the audit policy committee, the management committee and the accounting policy committee of Clarkson Gordon as well as being partner in charge of services to the banking industry.

He has been active with community organizations in Toronto and in Montreal, such as the Art Gallery of Ontario, the Montreal Museum of Fine Arts, the Hincks Treatment Centre, the Toronto Free Theatre and the Canadian Institute on Public Affairs.

In February 1987, Mr. Mackenzie embarked upon a second career and was appointed Inspector-General of Banks. The *Financial Post* told us that Mr. Mackenzie "will be the midwife for Canada's transition to one-stop financial conglomerates" and quoted our speaker as having "to learn to think like an actuary as well." This quotation, of course, immediately reminded me of all the misinformed stories of accountants, such as, what is the difference between an accountant and an actuary? The answer is that the accountant has personality!

Ladies and gentlemen, please welcome Michael Mackenzie, Superintendent of Financial Institutions, Canada, who will address us on "Risk and Regulation in the New Financial Marketplace."

Michael Mackenzie

Ladies and gentlemen, it is a great honour for me to have the opportunity to address The Empire Club of Toronto. I propose to share with you today some of my thoughts about the prudential supervision of financial institutions in Canada and the role of our office. This is of special significance since it was one year ago that I ceased to be a private citizen with the announcement that I had been chosen for my present role.

I am lucky because I accepted the government's invitation to become a senior regulator of financial institutions at a point in time when everyone knows that a great deal is happening and significant future changes are in the wind in Canada and other parts of the world. These events are providing a climate where there is a general recognition at government levels, in financial markets, and in the public generally that the country needs strong and active supervision of its financial institutions. Throughout my remarks today I will be talking about the major elements of these events and changes and how they can be expected to influence the work that we will be doing.

Obviously, some of the unhappy and costly events of the last several years in Canada and elsewhere have helped to set the stage. I do not propose to describe these events, details of which are likely known to most of you, other than to point out two main lessons.

The first is that they underline the need for a much higher level of professionalism on the part of all those involved in the management and supervision of financial institutions than we have had. This professionalism must take as one of its key elements the fact that the owners, managers, auditors and advisers of deposit-taking institutions recognize fiduciary responsibilities that are different from those of normal commercial undertakings. All of us involved with these institutions share the task of assuring that these responsibilities are recognized and are being met.

The second lesson may not be so obvious. It is now clear to me that one of the most significant fallouts of the various hearings and commissions dealing with these failures is the international attention they focused on the management and regulation of financial markets in Canada. A lot of these observers did not like some of the things they saw. The Canadian reputation for soundness and competence has suffered in New York, London, Zurich, Tokyo and other centres at a time when more and more financial business is being conducted on an international scale. This is not good news.

The fact that there have been some recent calamities has kept these doubts and questions very much alive. In addition there are now some international concerns about federal-provincial fragmentation — even balkanization — of the regulatory process in Canada.

A short while ago an old friend who is an experienced reporter in Washington gave me some sound advice about public speaking based on his many years of watching public officials in action. It is this. Public officials who develop no more than three basic messages and stick to them, win. Those who scatter their messages, lose. Therefore, he said, develop the messages, package them and repackage them, surround them with funny stories, run the risk of boring yourself and your audiences, but stay with them. So here goes.

Message one. There is high and increasing system risk in financial markets these days and the chances of trouble and accidents are high. The stakes are high. The pressures on financial institutions operating in Canada over my term of office will be intense and some of today's winners will turn into tomorrow's losers.

Message two. The core of regulation and the key to the prevention of trouble is effective and professional self-governance and self-regulation of our financial institutions.

Message three. In light of all this, our office is now designing and implementing supervisory and regulatory programs that are pro-active. One of the things we have learned from past failures is that it is difficult to deal effectively with institutions already deeply in trouble. There is a wide difference between the world of real time and the world of hindsight.

Before talking about my three messages in more detail, I should like to say a word about our mandate and mission. Clearly our core mandate is the protection and well-being of the public. Our task is to work to ensure the public's confidence in the safety and security of the institutions with which it does business and to which it entrusts its savings in the form of deposits, insurance policies and pension funds as well as the insurance protection over its assets. To these, I now have to add the protection of the public as investors in securities which will be done in collaboration with existing provincial securities regulators and in a way that recognizes that investor protection is primarily the mandate of the securities commissions.

Our overriding concern is with the ability of each federally regulated institution to meet all its obligations as they fall due. That is, the prime motivation of the actions we take is our prudential concern for the liquidity and solvency of each institution. This is based on the premise that public trust and confidence in the safety of financial institutions is overwhelmingly important to a sound economy.

A related concern is that access to the system is in fact free and open. That is, that no individuals or corporations have, because of ownership links, preferred access.

A safe financial services industry is one where its members are competently and honestly run and are profitable. While our concern is with the whole, a good deal of regulatory activity must focus on each institution separately since the system as a whole is the sum of its parts.

I should now like to talk a bit about what I have come to call "system risk." By this I mean, the general conditions in the economic financial and market environment that if not managed well can lead to trouble. In my view, system risk is high and increasing these days.

- First, we have now enjoyed over five years of economic recovery in North America. The recent turmoil in the stock markets is said to be occurring in large part because of fears that the period of recovery is nearing its end. I am not an economist in the business of making official forecasts. But I have a gut feeling that boom times though still with us today may be running out and that the environment for our financial institutions over the next several years may not be as benign as it has been — and this will create stresses. One indication of this is the impact of the break in the stock market on the ability of our financial institutions to raise new capital over the foreseeable future.
- Financial institutions, particularly banks, have had great difficulty adjusting to noninflationary times. As far as I can see, these adjustments have now taken place. There are, however, some signs that inflationary pressures are beginning to build again. Fears about inflation and interest rate increases are clearly influencing the current stock market. Significant increases in interest rates in the near future would likely have seriously damaging impacts on our financial institutions.
- There are a number of major potentially dangerous economic discrepancies and imbalances in current con-

ditions. One hears a lot about U.S. trade and budget deficits these days. The consumer economies of North America are doing well; the producing economies, although improving in some respect, are not as healthy. While there have been signs of significant real economy and investment improvements in Canada in recent months, the levels of new investment in producing assets and technology are too low. There is also evidence that income and wealth gaps between different regions and classes of people in Canada are wide and getting wider. In the modern world, this always leads to trouble. In our country, it may be one of the factors underlying the hostile and political environment for financial institutions, itself a risk factor.

- Our economy is characterized by a tremendous growth in sophistication and innovation in financial markets that bears little relation to underlying commercial and industrial activity. There seems to be a lot of financial and real estate speculation, corporate takeover activity and asset trading for short-term gains. The enormous growth of foreign exchange trading is not related to fundamental economics; I am told that only 5 to 10 per cent of forex contracts now are trade related.

The financial innovations of the past several years have been developed under favourable market conditions. No one knows how they will withstand economic shock and less-than-benign conditions. The impact of new market-traded products in bear markets is not known. It is interesting to note that the two recently issued post-mortems on the October 19 market break in the U.S. have pointed fingers to the destabilizing roles of new products and so-called computerized insurance programs. Many of these innovations include new financial products designed to be used for hedging purposes. Everyone knows that unless there are a lot of speculators around, many of these products cannot be used to hedge — and a lot of speculators in a market both adds to and reduces risk. What worries me even more is that while hedging spreads or transfers risk around, it does not reduce the underlying transaction or position risk. And since all the players may not fully understand the risks they are giving up or acquiring, and there is a new dimension of transactions risk associated with these instruments, the development of new hedging techniques will reduce risks for some players but actually increase risks in the system taken as a whole.

There seems to have been an exponential growth in the volume and value of large financial transactions — in Eurocurrency markets, bond trading, foreign exchange, commercial paper. The dollar flows through the New York clearing system — and Canadian banks are active participants — about $1.5 trillion each day. The volumes of swaps are enormous. If you couple this with the immensely powerful data processing and communications technologies, without which many of these markets could not exist, the risks of accidents are frightening. The necessary control systems go far beyond anything we used to know. Fortunately, the systems that have been developed are very impressive — but they are not fail-safe.

- Debt loads are heavy. In Canada we see many corporations and most families with improving balance sheets although there is still too much private-sector debt around. More recently, there has been a significant increase in consumer debt; particularly mortgages. Governments, mainly in Canada, the U.S. and the LDCs, are trying to cope with debt burdens that are — or likely will become — virtually unmanageable.

  The banks' LDC debt problem in particular continues to be serious and its overhang on the markets is ominous. As you know, it occupied a good deal of my time last summer and continues to do so. The situation has not improved, the possibilities of payment suspensions and moratoria are increasing, and no one sees a stable solution.

  I believe, however, that the international commercial banking system is now much better insulated against serious problems coming from this quarter than it was a few years ago.

- Financial markets have become more international and very much more competitive. The pricing of an increasing number of banking and securities transactions is under intense pressure and does not adequately compensate for the risks being taken. Competition is fierce — both internationally and domestically, and is increasing. The plain fact is that there is an oversupply of financial institutions into the market. The risk factors associated with competition will increase as institutions take advantage of deregulation to move into other financial services. The most obvious example is banks moving into the securities business where the cultures and risk characteristics are so different. I think these risks are manageable — but it will take hard work and constant attention.
- Closer to home, there are three structural risk factors specific to financial services. One is the problem of gaps and conflicts between federal and provincial regulation and supervision. This, I believe, is manageable as we focus together on specific issues of mutual concern. Our relationships and ability to deal with our provincial colleagues as issues arise are developing. We and they are well aware of the danger of people being able to structure their affairs to avoid the jurisdiction of most severity. We should all be concerned with the dangers of balkanization of the regulation of this industry. The second factor is a depositor insurance regime without coinsurance. This, for all its merits, removes essential market disciplines from exercising their control over many deposit-taking institutions. With reasonably secure, although often costly, sources of funds, a number of institutions have been driven to take on high-risk assets in order to earn quick returns to build capital. The only way to manage this is to substitute regulatory discipline for the market. Thirdly, we are seeing the rise of financial conglomerates; some with commercial connections, others without. While this development can properly be viewed as having the potential for adding to

financial strength and stability in the system, I think it is clear that it also adds to risk. There are some dangers, for example, intrinsic to "one-stop" financial shopping.

Take all these factors together coupled with the fact that in today's world bad news travels fast, and I think you will agree that I have taken on a very high-risk job.

The first line of defence in this environment lies in self-governance and self-regulation. This, in our judgment, is the key to a safe system. This may seem obvious. Yet, at various levels — the government, including both politicians and civil servants; the industry itself, both management and directors; the accountants and lawyers advising institutions — I do not believe this concept is well understood or even in some cases accepted.

What I mean by self-regulation encompasses the following:

- Competent and honest management that accepts the fact that its fiduciary responsibilities are just as important as its entrepreneurial responsibilities and devotes itself to the safety and prosperity of the institution being managed without being distracted by outside interests.
- Boards of directors that are actively concerned with sound governance and that understand their fiduciary responsibilities. This assessment of the importance of directors' roles is reflected in the draft trust and loan company legislation published before Christmas.
- Sound management practices including good financial and internal controls and audit functions. In a world facing the kinds of risks I have already described, this calls for systems embodying a degree of sophistication going far beyond what we used to know. At the same time, it requires an increased ability to stand back from transactions to assess their impact — and this is becoming very difficult.
- Sound and very conservative asset valuation and accounting practices, particularly those related to revenue recognition rules.
- Adequately capitalized operations and good liquidity management. In this context, each financial institution that

is a member of a corporate group should be itself adequately financed and independently managed. Business conditions are very strong right now and so it is a good time for institutions to increase reserves, build capital, and improve liquidity.

- Competent work by external auditors, and reliance on their audit reports by directors and by our office.
- Tight controls over related party transactions and insistence that they all be at market prices and terms.
- Last — and most important — good profitability so that shocks can be taken if need be and access to new capital is possible.

I have no hesitation in saying that an industry will be able to assure safety for depositors and policyholders as well as investors only if it is profitable.

Institutions that are well managed and governed according to the precepts just outlined should be able to weather turbulent conditions. It is, of course, not too difficult to display many of the appearances of good management when things are going well. But history tells us that when the environment becomes difficult, good managements come under pressure and management quality often deteriorates. The classic moves are from apparently good conservative management to cosmetic management to desperation management. The quality of management is the essential ingredient in a strong financial system. Poor management is the key factor in virtually all failures and near failures.

The opening up of new markets and new competition under deregulation will separate the strong and the weak — the well managed and the poorly managed. In other markets where there has been deregulation, there have been winners and losers. I doubt if Canadian financial services deregulation will prove to be the exception to this rule.

It is mainly because of these perceptions about the importance of management — and the need to know how it is handling adversity — that we are becoming more pro-active in our approaches.

The key to this is the development of direct relationships with boards of directors, usually through their audit committees. All the applicable legislation that I am familiar with states that the basic job of directors is to manage. It seems to us, therefore, that a good, direct relationship between the regulator and boards of directors is very important. If established when things are going well, this relationship should increase the chances of preventing trouble from getting out of control when things go badly. We have started this program of direct contacts with bank boards and have also started to meet with trust company and life insurance boards. So far, this initiative has been well received and the meetings have been anything but superficial. Real issues are covered.

I should note at this stage that, in doing this, we are *not* trying to manage any institution.

I have been extremely encouraged by the levels of cooperation we have received so far from executives of banks, trust companies, and insurance companies. We are receiving excellent support from the legal and accounting professions. I sense that people do not at all object to the concepts of regulation that I have been talking about and want to help.

One reason for this, I am happy to say, is that the former Department of Insurance and Office of the Inspector General of Banks have been perceived by industry participants as professional and competent. Bob Hammond, who is at the head table today, enjoys a first-class reputation in financial circles as a tough but fair and sensible regulator.

There are now a few other pro-active initiatives that I want to touch on. The first is the question of control over the accounting rules and the way these are developed in the financial services industry. As far as banks are concerned, our office is not yet ready to turn the making of these rules over to the accounting profession. One reason for this is that it is our office's responsibility to wrestle with the problem of how to handle accounting for country risk debt exposures. This is a problem which has so far been beyond the capability of the accounting profession anywhere in the world to deal with.

At this point I might note that the Canadian loan loss accounting system for banks with its requirement to spread loan losses over five years has served the banking industry well even though it is not loved by accountants. In my view, it has produced generally better and more visible results in periods of heavy loan losses than have the U.S. and U.K. accounting systems.

This power to direct the accounting rules has been critical in helping our banks revalue these exposures to levels that are in line with market realities in a clear and visible way. I note that the new legislation proposes that trust company financial statements follow the *CICA Handbook* rules, "except as otherwise prescribed" by our office.

We are, however, collaborating with the profession in the development of appropriate accounting rules including those for fee income and certain other financing transactions peculiar to lending institutions. Our office has participated in the CICA Task Force that has developed a new guideline on accounting for loan fee income. We will also be taking a leadership role in developing procedures for handling off balance sheet risks and appropriate risk-weighted approaches in the measurement of capital. We are working with both actuaries and accountants on changing methodologies used in setting insurance reserves. These are major projects.

At this point, I wish to reiterate something said earlier. The experience of the last five years or more in Canada and the U.S. illustrates the dangers of financial institutions following what might be called aggressive valuation and accounting procedures. In a regime where deposits are fully insured, the insurer and the regulator working with the insurer have a duty to ensure that insured institutions follow very conservative accounting. Accounting rules need to be developed with the depositor and policyholder as well as the shareholder in mind. This principle, it seems, is accepted in the life insurance business. It is a dimension not necessarily compatible with the CICA focus on shareholders and investors.

I should also note that the accounting issues assume an unusual importance for financial institutions because of leverage. Deposit-taking firms operate with capital or borrowing bases of around 5 to 6 per cent of total assets. It does not take a very large error in accounting or valuation of assets to destroy this base.

The accounting rules should be generally applied in as uniform a way as possible to all players across the system. As we all know, however, the application of accounting rules is not mechanical; it is often necessary to use judgment.

It is, in my opinion, important that each time an auditor examines a set of financial statements, he stands back from the numbers and the particular accounting and valuation practices used to ask if, taken in the aggregate, they make sense. It is entirely possible that, on an item-by-item basis, one can justify each accounting treatment, but taken as a whole, the result does not yield a fair presentation of financial condition. Our office expects that reporting auditors will do this standing back and take appropriate action as necessary. It is even more important that senior management who prepare financial statements and directors who approve them take the same approach. This is the prime subject covered in our directors' meetings.

A word now about our relationships with external auditors. I have no doubt that we want to continue the practice of relying on audited financial statements as important regulatory documents. In the case of banks, this is explicit. In the case of trust and insurance companies, it is implicit in the sense that the statements are accepted and then adjusted by us to arrive at borrowing bases and insurance reserves. Auditors are, in fact, already involved with the regulatory financial statements of trust companies and insurance companies.

There are some future dimensions. One that must be pursued with the profession when the legislation is passed is the auditors' role in reporting transactions or conditions that affect negatively the well-being of the institution, and in assisting us in monitoring adherence to guidelines and rules covering self-dealing and conflicts of interest. We have been talking to the profession about this and we all recognize the need to clarify responsibilities. For example, we need to determine what is meant by the word "well-being." We would, if possible, like to avoid the necessity of building up a special staff or our own to do this work. One approach could be to ask auditors to prepare for us lists of related party transactions and leave to us the judgment as to their compliance with rules. As far as trust companies are concerned, this will require them to make an examination of the trusts, estates and agencies accounts which they do not do now.

We have taken steps to set up advisory committees of auditors of banks, trust companies, life insurance and casualty insurance companies. Our meetings with these committees to date have been frank and open and have strengthened the relationship between our office and the auditors of these institutions, and we hope will improve the auditors' capacity to be independent.

Our examination policy is to take an even-handed and consistent approach in looking at each institution. It is obvious, however, that we are more cautious with any institution where there is a heavy concentration of assets in certain industries and geographical areas. Experience tells us that the most effective way an institution can manage risk is to diversify both sides of its balance sheet — its assets and its funding. Where this does not exist, we know that management and directors and we ourselves should watch out.

A related area is that of capital adequacy. There is a need to develop regulatory measures of capital that are realistic and consistent. Reality involves ways of risk weighting both assets and off-balance sheet committees and exposures. Consistency means developing compatible approaches as between different institutions and countries.

There are two immediate problems. One is to harmonize the very different approaches taken by banks and securities dealers. This is a problem that is also taking the attention of authorities in the U.S. and the U.K. who are concerned both with their own situations and international harmonization.

The second is to develop common international standards. There are ongoing meetings to try to develop consistent and sensible risk-weighted standards under Bank for International Settlements initiatives. We support these initiatives since we share the view that international competition must be constrained by generally accepted and consistent prudential standards of capital. We are taking an active part in the process and these standards may well be in place in the very near future. There is mounting evidence that the cost of capital and the needs for capital have become critical factors in business strategies and pricing.

The legislation setting up our office contains new directions of compliance powers to be exercised when, to quote, "a bank (or other institution) is committing or pursuing or is about to commit or pursue any act or course of conduct that is an unsafe or unsound practice." In addition, we are being given some power to set asset values, particularly those related to real estate.

This is new territory for a regulator in Canada, and the existence of these powers presents some new problems. There is, for example, no clear definition of "unsafe or unsound practices." I can assure you that I hope we will never have to use the power but I'm afraid we will not be able to avoid doing so in some situations. We will, of course, be careful to deal with only matters that are significant and in most cases act only where we see no alternative. There are appeal provisions and you can be sure we will only proceed when we are sure of our grounds. The U.S. experience has been that the threat to use the power is often as effective as its actual use.

Finally, a word about our banking system. During the six years ended last October, the Big Six Canadian banks recorded about $20 billion of loan losses, including over $8 billion of country risk loss provisions. During the same period, they were able to continue to pay dividends, reinvest earnings and attract new capital despite these enormous losses. These banks are better capitalized today than they were in 1982. This is a formidable accomplishment. Even after taking LDC loss provision hits, the Canadian banks generally have higher equity-to-asset ratios than do U.S. banks.

The property and casualty insurers have suffered severe losses in recent years. They have generally weathered their problems and are today in strong financial positions. In general, the trust companies and life insurers are in good shape.

In our view, Canadian institutions are in the main competently managed and are holding generally diversified assets and a diversified deposit book.

In recent years, in my observation, the management of our financial institutions has, perhaps to the chagrin of many of their more adventurous staff, been generally risk averse and, therefore, quite cautious.

I think, although many in this audience and elsewhere in Canada have strong views about the place of the major Canadian banks, trust and insurance companies in our economy, we should realize that it is important to us all that they constitute the core of a healthy financial system. Such a system is central to the well-functioning of our economy, including its ability to handle pain.

The appreciation of the audience was expressed by Diana L. Chant, Treasurer of The Club.

John Godfrey

Editor, *Financial Post*

THE DANGERS AND OPPORTUNITIES IN 1988

February 4, 1988

Chairman: Ronald Goodall, President

Ronald Goodall
This week, on February 2, a rather rare event occurred in the City of Toronto. On that day, a new daily newspaper, the *Financial Post* Daily Edition was published. A lot of the credit for this innovative event has been attributed to our speaker today, John Godfrey, a historian, educator, writer, and now editor.

Idiosyncracies of writers are well known: Shakespeare never blotted a line; George Bernard Shaw never drank liquor, coffee or tea (he survived to 94). Our speaker today has a penchant for hats: the bowler, the deerstalker, the old fishing hat, the hat party.

However, the event of publication of a new daily newspaper will be met, as would anything new, with criticism that such a daily is not necessary; there is a weekly *Financial Post*; a *Financial Times*; a daily *Globe and Mail* Report on Business. Lewis Carroll foresaw this criticism. Perhaps I can quote from that famous tea party in *Alice in Wonderland*: "Not the same thing a bit!" said the Hatter. "Why, you might just as well say that 'I see what I eat' is the same thing as 'I eat what I see.' " Our speaker will, of course, reveal the objectives and plans for this daily newspaper and rebut this criticism.

John Ferguson Godfrey was born and raised in Toronto, Ontario. He was educated at Upper Canada College and at Neuchatel Junior College in Switzerland. He holds degrees from Trinity College, University of Toronto; Balliol College, Oxford, and a doctorate from St. Antony's College, Oxford, England.

His academic career included positions as assistant and associate professor of history, Dalhousie University, and as president and vice-chancellor, University of King's College. Mr. Godfrey's honours include the Queen's Jubilee Medal in 1977 and the Vanier Award in 1981. He is a member of and has been active in a number of organizations serving the arts, education and the community such as the Association of Atlantic Universities, the Association of Commonwealth Universities, Canadian Conference of Christians and Jews, the Ethiopia Airlift and Adopt-a-

Village, the Seaweed Theatre Association, the Atlantic Symphony and the Atlantic Ballet Company. Mr. Godfrey has authored a book *Capitalism at War: Industrial Policy and Bureaucracy in France, 1914-1918*, and has written various articles on educational, political, international, social and economic affairs for Canadian newspapers and magazines.

Today, Mr. Godfrey will discuss the dangers and opportunities in 1988. However, I should mention that 1988 is a leap year. The origin of the term leap year is somewhat obscure. In a leap year any fixed date after February does not fall one weekday later than the preceding year but skips or leaps a day and occurs two days later. The origin of the custom that women may take the initiative and propose marriage in a leap year is obscure also. However, this custom was provided for by law in Scotland in 1288 and a fine was levied on the refusing man.

The opportunities in 1988 appear to include the leap from weekly to daily newspaper and the leap (forward or backward) from historian to editor. The danger in 1988, Sir, is that your present status as single could change given the opportunity custom presents to the fair sex.

Ladies and gentlemen, please welcome John Godfrey, editor of the *Financial Post*, who will address us today on "The Dangers and Opportunities in 1988."

John Godfrey

The dangers and opportunities that I am going to describe will mostly be my own. I would like to console any of you who thought I was Bob White. I am not Bob White. However, my life, as his book will describe, is on the line. That pretty well sums it up, although I think even more on the line today is the life of our circulation director.

Day one of the new *Financial Post* was marked by a couple of events. One was Doug Creighton, the chairman of the board, not getting it at home. It was thought a little unwise as well on our part to have skipped the newspaper outlet in the Maclean Hunter building. I should point out that there was no favouritism shown because I didn't get mine this morning and neither did my father.

I should say that, for those of you who were wondering why it hadn't snowed yet, did you notice that just as the trucks were leaving on the eve of February the 1st for points east, west and everywhere else, it started to snow. It hasn't stopped since. That old "FP magic" does its thing.

The manager of circulation, Michael Fox—he is actually Michael J. Fox for all you teenyboppers out there—is a hero. He really has done a miraculous job in the time available. We started with 18,000 home subscriptions to deliver from day one in Toronto, 1,400 boxes, which was up a little bit from the 30 we previously had in the streets, out of 4,500 dealers and, somehow, the miracle mostly happens. It happens about 97 per cent of the time, the other 3 per cent are only members of my immediate family and directors of the *Financial Post*.

On the editorial side, we've had fun, too. We started with what they call a series of "live dummy runs." This does not refer to any athletic activity on the part of the people at the paper, but rather the attempt to produce, as close as you can under real battlefield conditions, a newspaper. Day one, after we said "OK, the deadline would have been at 6:15," day one looked like *Ran Daily Mail* in South Africa doing a special report on Nelson Mandela. There was more white there for scribbling notes, sending little messages to your friends . . . we were going to charge 15 cents because that was about as much as you got out of it.

I would like to say though—to reassure you if you think that I am in the wrong place at the right time, or the wrong time—that this is not the first newspaper I've launched. This is actually the third. My father kindly found a clipping from *The Toronto Telegram* of 1954, at which Doug Creighton laboured and of which the *Sun* is the wild successor, pointing out that in October of that year, a newspaper was launched called *The Coach House Chronicle* at Mooredale House in Rosedale and it's full of the business plan—I was 11 at the time. I'm recorded in the *Tely* as saying, "We drew up an estimate of costs and presented to the board of directors at Mooredale. We managed to cut it down a little bit. They gave us a terrific supply of newsprint, 7 by 3½ inches, ink and type." And then it goes on to report, "The boys have a crew of reporters and printers, though at present they're going through the painful process of firing and hiring." And I'm quoted again: " 'It isn't easy getting them to do what you want,' said John,

'. . . but we'll just wait to see what they can do best and then get them to sign a contract.' " Oh, dear. *Plus ça change . . .*

The second effort was perhaps more closely allied to our current situation when I went as a day boy to Upper Canada College in the prep school in Grade 8. A friend of mine, Philip Lind, who is now a vice-president of Rogers Cable, and I noticed an establishment rag there called *The Border* which was Gestetnered—a much more advanced kind of technology—and at that point we decided what we needed was a peppy little product to take on the establishment rag—sound familiar?—and we put out *The Day Boys' Chronicle.* "Chronicle" is a part of all my early newspapers. And we actually did very well. We had contests and all sorts of things and, eventually, we broke the monopoly of the establishment which is what we're out to do again.

When we had Frank Barlow over, the managing director of the *Financial Times* of London, earlier this week to join in the festivities—and I should remind you that the *Financial Times* of London has taken a 25 per cent stake in this operation along with the *Sun*'s 60 per cent and Conrad Black's 15 per cent—he said something which really struck a note with me. He said, "I inherited the *Financial Times*. I didn't invent it."

Well, ladies and gentlemen, I think I can say I've done both. Because eight months ago, coming out of an academic life like Bob Painter, my friend from Trinity, my old college, a greenhorn editor if ever there was—talk about on-the-job training—I thought I was inheriting the editorship of the most distinguished financial weekly in the country—the 81-year-old *Financial Post*—from Neville Nankivell. I understood that I was part of a glorious line going back many years, but in the past 60 years, there'd only been five editors—Floyd Chalmers, Ron McEachern, Paul Deacon, Neville Nankivell and myself. And I thought I'd know what my job was. We had an excellent product—200,000 circulation. In fact, this year the *Financial Post* ended with the best year ever. Record revenues, record profits.

But then, two months after I arrived, my life was turned upside down when Neville said, "Now, it's time to invent. We have to invent a new financial daily to go with our old friend, the weekly." And as the plot unravelled and we couldn't tell people—it was a terrible difficulty plotting in a news room because they're all so nosy and such awful gossips, that's what they're paid for—it was very difficult keeping the secret back. But people like Bea, I think, had pretty well figured out what was going on but were kind enough not to ask. Then the *Sun* came into this partnership and, suddenly, we had this extraordinary image of Bay Street Boys on page 3 and all sorts of thoughts.

And this is the importance of the *Financial Times* link, because the *Financial Times* gives us a watching post from London on the whole world and if we're going to thrive in this country, not only do we have to understand the United States better, but we have to understand the world better.

I was on the phone to a friend of mine in Tokyo this morning and it was after midnight his time, and he was talking to me about a column we're going to do, a sort of global markets column out of Tokyo. What about, "Where are bonds going in the next two months?" He's predicting—get your note papers out—he thinks that the bond market is booming right now. There's an awful lot of liquidity in Tokyo. He then sees another big stock push which will trigger yet another little bow on the stock markets, followed by . . . I hate to tell you some bad news—but that kind of perspective from Asia, where the markets open first is what we want to put into the paper, a global perspective. And that's the nature of this partnership with the *Financial Times*. A Canadian paper which is grafted into, or onto, a global press organization so that we do not take anything for granted out there when we tell you about what's going on.

We've taken a lot of flack over, well, a certain amount of flack, over this phrase we've used—"the intelligence of money." The intelligence of money—there was a *Sun* columnist, Gary Dunford, who said, "The intelligence of money . . . why don't you say the intelligence about money, or that's like saying the apple of orange. It doesn't work." Well, I think it does work and here's why.

The intelligence of money means two things to me. The first is a kind of military intelligence, that notion of knowing beforehand what's happening so you can make your choices. We are out here, as Frank Barlow says, "to inform decision-makers"—decision-makers who are investors, who are running corporations, who are running governments. That's our market. It's not a big market. It's a very select market. The other reason I like the intelligence of money is it gives the notion of a presiding intelligence—that someone is sitting back there, in London or in Tokyo or here in Toronto, saying, "The reason we're putting this story in is to give you a notion of what's coming, what will happen in the future to oil prices, to forest products, to gold." That sort of intelligence that is thinking about the product. And that is the model which the *Financial Times* of London gives us.

As far as our future goes, I think we've got a terrific future and the main thing is getting one step right at a time so we can move on to the next phase. What the *Sun* has is enormous faith in this enterprise and the courage of its convictions. I found myself with Bea Riddell yesterday, sitting down with an architect planning the new building which will be on the side of the existing *Sun* building, and planning not only for that building, but for the expansion of the existing staff. The *Sun* has already ordered a dedicated press for us. That is faith and that's the kind of attitude we were so delighted they brought to the party.

There's also the notion of phase two and phase three and they're closer than you think. Once we get our act together here in Toronto—once we understand the nature of the beachhead that we've landed on—if we can do it here, we can certainly do it elsewhere. Phase two and three will follow on rapidly and that will involve going national in the fullest sense of the word with printing regionally, satellites, regional distribution system, home delivery and the whole bells and whistles. That is the goal and we think it's closer than many people realize.

But that's only the beginning, because when you have a great daily financial newspaper, you have a number of other things. You have information which can be used in a variety of ways. And so what we see is the use of electronic information—*The Wall Street Journal*, for instance, whose circulation and ad linage is dropping off, is making more money than ever from the electronic side. We've got all of that with us, too. We have all the on-line information, *FP* on-line. We have all of our traditional *Financial Post* information services and the value that's being added to them will be greatly enhanced.

And it doesn't end there. We're going to be able to provide financial information in any format you wish, whether it's radio, or we're looking now at things like television, and we've already produced books and we shall produce more. It's almost limitless. But the main thing is a step at a time, one bite at a time.

So that's the core of our operation—the weekly with the four little friends tagging along like ducklings after the mother duck. And our mandate clearly, at the end of the day, is to become great. Now, I'm not naive and I am a historian and I know that institutions are not made great overnight. I was lucky enough to be the president of the oldest university in Canada and I can tell you it takes time in any institution to create greatness.

You can make something good enough—and I think we are doing pretty well already on this product—but you should never be satisfied with that and the mandate is to get right out there the way Barney Kilgore did with *The Wall Street Journal*, recognize that good is a good start, but that greatness is the goal. Thank you very much.

The appreciation of the audience was expressed by Douglas L. Derry, a Past President of The Club.

T. Don Stacy

President, Amoco Canada Petroleum Co. Ltd.

ENERGY: THE NEW CHALLENGES AND OPPORTUNITIES

February 11, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

In 1857, James Miller Williams dug Canada's first commercially successful oil well in southwestern Ontario at Oil Springs. Three years later an oilfield was discovered at a nearby town called Enniskillen. The town was renamed Petrolia and became Canada's first oil capital. Natural gas was discovered in 1914 at Turner Valley, Alberta, and crude oil was discovered there in 1936. However, the discovery of the Leduc oilfield in 1947 and of the Redwater oilfield in 1948 marked the emergence of Canada as a major world producer of oil and natural gas. Canada gained two new oil capitals, Calgary and Edmonton.

In recent years, multinational and other companies developed the western and northern oil wealth of Canada, none more so than Dome Petroleum Ltd., a company described by one author as "the house that Jack built." From a start in 1950, Dome Petroleum expanded steadily, drilled extensively in western Canada and the United States, pioneered oil exploration in the Arctic and became a major developer of Canada's oil and gas resources.

Newspaper headlines reported Dome Petroleum's activities over the years, particularly in recent years with the much publicized purchase of Hudson's Bay Oil and Gas. Dome Petroleum's ongoing battle to stay alive since that date has captured our attention as we read daily or weekly the business story of the decade. This story seems to be about to have a happy ending. After months of secret and public negotiations, our speaker today and the company he heads plan for the future of the Dome Petroleum they are about to take over.

Thomas Donald Stacy was born and raised in Texas. He studied petroleum engineering at Louisiana Tech University. He joined Amoco Corporation (formerly Pan American Petroleum Company) in 1956 and gained an international perspective on the petroleum industry by serving in several positions including vice-president, production, for Amoco's Central and South American region. From 1963 to 1967, Mr. Stacy took a leave of absence and was assistant professor of petroleum engineering at

Mississippi State University and earned a doctorate in engineering science. In 1975, he attended the University of Western Ontario school of advanced management. This particular career phase has resulted in his being known in Amoco as "The Doctor."

Amoco Canada has been operating in Canada since 1948. The company is the eighth-largest producer of oil and gas in Canada and Mr. Stacy served as chief engineer in Calgary from 1971 to 1975. During this period, Amoco Canada experienced significant growth. Mr. Stacy was a driving force behind Amoco Canada's launch into the high-tech area of enhanced oil recovery, the name for new techniques for pumping previously unrecoverable oil out of reservoirs in the ground. He returned to the United States and became production research manager for Amoco's research centre, one of the most technologically advanced facilities of its type in the world. His appointment as President of Amoco Canada in 1986 marked his return to Calgary.

He has been involved in numerous Canadian and international civic and professional organizations, is a member of the boards of Junior Achievement of Southern Alberta, and of the Canadian Petroleum Association, and the Board of Governors for the YMCA of Calgary. In 1983, Mr. Stacy was worldwide president of the Society of Petroleum Engineers. Recently, he was a director of the sponsoring board hosting the 1987 World Petroleum Congress.

Mr. Stacy and his wife, Wanda, a childhood sweetheart, now reside in Calgary and have four children. Mr. Stacy was selected as Executive of 1987 by the *Financial Times* of Canada, 1987's Newsmaker of the Year by the *Financial Post* and Sun Oil Patcher 1987 by the Calgary *Sun*. On a much-less-serious note, he was labelled "The $5 billion man" by *Maclean's* magazine in 1987, reflecting the price to be paid for Dome Petroleum.

Ladies and gentlemen, please welcome Don Stacy, President, Amoco Canada Petroleum Company Ltd., who will address us on "Energy: The New Challenges and Opportunities."

Don Stacy

Thank you for your kind introduction, and my thanks to The Empire Club for the invitation to address you here today. Amoco Canada's offer to purchase Dome Petroleum is certainly getting its share of attention. During the last 10 months, I have learned what it's like to live under the glare of public scrutiny. And that sits well with us at Amoco. For, as George Bernard Shaw once remarked, the only thing worse than being talked about is not being talked about.

There is, of course, a much more compelling reason to welcome the widespread media coverage and the extensive public debate about the proposed purchase. The new merged company will play a major role in the future development of Canada's oil and natural gas resources. It will become one of Canada's leading employers. And it will contribute substantially to Canada's future industrial growth and economic prosperity. Canadians have a right to know about the merger and what effect it will have on their well-being. And we at Amoco Canada welcome the opportunity to answer any questions that the public may ask.

The primary question is whether there is going to be a deal at all. We thought we had one last May, when both Amoco Canada and Dome worked out what each had regarded as a fair and equitable agreement. But some of Dome's lenders didn't agree, and we returned to the negotiating table for another round of hard bargaining. Our task, as always, was to negotiate terms that would satisfy the needs and desires of a wide variety of sometimes disparate groups—banks, institutional investors, individual shareholders, the federal government, regulatory agencies, the management and employees of both companies and, of course, the general public.

In the end, we came up with a fair and generous package—one that will provide the greatest good to the greatest number. The $5.5-billion deal—the biggest in Canadian history—gives Dome's secured lenders an average of 95 cents on the dollar and its unsecured lenders an average of 45 cents on the dollar. Common shareholders are offered securities having a face value of approximately $1.47 per share and preferred shareholders $7.30 per share.

Of greater importance, the merger will guarantee the jobs and livelihoods of thousands of Dome employees. It will pump billions of dollars a year into the Canadian economy through wages, capital expenditures, taxes and royalties. It will ensure continued exploration and development of some of Canada's most promising natural resource properties. And it will bring the country closer to its goal of achieving a secure supply of energy.

So far, our acquisition of Dome has been approved by the federal government, by all of Dome's secured lenders and by a solid majority of Dome's unsecured lenders. Most common shareholders seem to endorse the deal. Only a small minority of preferred and common shareholders have challenged the classification and voting levels that were recommended by Amoco and subsequently approved by the Court of Queen's Bench of Alberta. The recently concluded court proceedings have allowed us to proceed to the final stages of a lengthy and highly complex process. We have dedicated a lot of energy toward the consummation of this deal and we have overcome several major hurdles. What remains now is the formal polling of creditors and shareholders and the final fairness hearing. We expect the final closing to occur by mid-year.

This acquisition is a mammoth undertaking for Amoco Canada, but it is one that the company eagerly accepts. From the merging of the two workforces to the implementation of enormous energy projects, the company will face unprecedented challenges in an industry already underscored by risk. The stakes are always high in the chameleon-like and volatile oil patch. The energy industry harbours both uncertainty and dependability. It gives rise both to concern and optimism. It foments failure and despair, while it also engenders wealth and fulfilment.

In the past two years the price of oil dove from more than $30 a barrel to less than $10; then rose to above $20, only to come down once again in the face of OPEC's difficulty in controlling its own members' production rates. But if the December meeting of the OPEC countries raised questions about the organization's effectiveness, it also reaffirmed the importance of oil to the economic well-being both of producing and of consuming countries.

Whichever way the winds of international discord may blow—however uncertain the present may seem to be—there is no doubt that the oil industry will be quick to adjust and adapt to any new events, and that, over the long haul, demand for oil and natural gas will remain strong.

Here in Canada signs of this brighter future are already visible. The development of reserves in the Beaufort Sea and an increase in the number of enhanced oil recovery programs and heavy oil projects will likely proceed in the not-too-distant future. These programs will, of course, be possible only through continued government cooperation. And so far, the policies of the present government have accomplished a great deal to temper the volatility of the oil industry.

The deregulation of the oil industry in 1985 and the subsequent deregulation of natural gas prices in 1986 have allowed petroleum companies to establish new markets for their products.

The 1985 action to phase out the petroleum revenue tax has further encouraged investment to develop Canada's energy resources. And during the past two years, Canadian producers have doubled their drilling activity. By contrast, in the United States, which retains its windfall profits tax, activity has risen by less than half the Canadian rate.

The proposed reduction in the general corporate tax rate to 28 per cent will undoubtedly have a positive impact on growth for all sectors of the Canadian economy. For the energy industry, it will certainly provide an incentive to increase investment in conventional oil and gas activities.

I also expect the recently negotiated free trade agreement with the United States to herald a new era of economic and industrial expansion in our two countries. The prospect of unfettered access to the enormous market south of the border may seem awesome, at first glance, to many Canadian businesses. And to some, the challenge presented by an equal competition with Americans in our Canadian markets may seem a daunting undertaking. But prophets of doom are rarely vindicated, and we should give little credence to those who condemn free trade.

I feel I can speak on behalf of the Canadian oil industry when I say that free trade with the U.S. will motivate investment in long-term projects requiring long-term markets. It will spur the creation of new jobs, raise our standard of living, and give Canada increased economic strength and energy security.

Another milestone in the march toward future prosperity is the government's attack on Canada's oversized deficit. Our staggering national debt—proportionally larger than that of the United States—is the greatest single barrier to future economic security. It is the dead weight that can drown the hopes of a more prosperous life—not only for the working men and women of today, but for the generations that succeed them. Ottawa's commitment to deficit reduction must rank, therefore, as one of the most significant contours on Canada's political horizon. As yesterday's budget confirmed, the deficit can be managed. But bringing the national deficit below the $30-billion level is not the final objective. It is merely a vantage point from which we can look upon further reductions in the months and years ahead. The long and gruelling process of deficit reduction has only just begun, and it is up to all of us to ensure that the government has the necessary support to see it through.

For its part, Amoco Canada is confident about the future of the Canadian economy and of the long-term viability of the nation's oil and gas sector. And we at Amoco are committed today, as we have been for the past 40 years, to the beneficial development of Canada's energy resources.

From our modest beginnings in 1948, when we operated out of rooms in Calgary's Palliser Hotel, we have grown into one of the most significant oil and gas developers in Canada. During the past four decades, we have drilled more than 3,300 wells and added one billion barrels of oil and six trillion cubic feet of natural gas to Canada's reserves. We spend almost $500 million annually on capital projects and operating activities in Canada. More than 22,000 people across the country owe their jobs directly or indirectly to these ongoing programs.

Amoco Canada has paid over $4.5 billion in direct taxes to government during the past 10 years. And every year, Amoco Canada contributes approximately $1.8 billion to the country's gross domestic product, $3.6 billion to the gross output of Canadian industry and more than $600 million to the incomes of Canadian households. These contributions will not only continue once the Dome purchase is complete, but they will grow, and grow substantially. The merged company will become the largest petroleum production enterprise in Canada, with a truly impressive pool of financial, technological, and human resources.

Amoco's agreement with Investment Canada demonstrates our continued commitment to this country. The agreement, reached after rigorous negotiating, is one in which both parties can be justifiably proud. To ensure that the mind and spirit of the new company remain in Canada, Amoco has agreed to enlarge its board of directors from nine to at least 12 members, at least two-thirds of whom will be Canadians and half of whom will be outside directors. We will continue to have Canadians in at least 70 per cent of our executive management positions and we will offer employment to virtually all of Dome's employees. We will allocate at least $2.5 billion over the next five years to exploration, development, pipeline construction, and other capital projects. This is about $1 billion more than would have been spent separately by Amoco and Dome. Our capital projects will stimulate growth in a variety of industries across our country, with a particular boost to the manufacturing and service sectors. Of the thousands of new jobs that will be created by Amoco's enhanced capital program, it is expected that more than 30 per cent will be in Central and Atlantic Canada. The ongoing discovery and refinement of improved technology is critical to the successful development of oil sands, the Beaufort Sea reserves, heavy oil deposits, and enhanced oil recovery programs. Toward this end, Amoco has earmarked $100 million to be spent in Canada over the next five years for experimental and applied research. And, as part of our commitment to Canada, 20 per cent of Amoco Canada's voting stock will be made available to Canadian investors in a series of public offerings that will begin within five years after the acquisition of Dome is completed.

I have bombarded you with a lot of gee-whiz numbers today—a billion dollars for this, another three billion for that. My motive, in part, was to impress you with the sheer magnitude of our activities and our considerable contribution to the wealth and prosperity of Canada. It was an expression of my desire to gain your understanding and your support for Amoco Canada and for what we are doing. We do recognize, after all, that Canadians from all walks of life and from all regions of the country are essential to our corporate well-being.

Unless Canadians realize that the oil and gas sector as a whole and that Amoco in particular provide significant benefits to this country, we would not get approvals for our activities and we would not participate in the development of critical public policy affecting our industry. Without the ever-present support of our workforce, Amoco would lack the skill, creativity, innovation, and dedication needed to remain vital and competitive. And without the backing of investors, Amoco would lack the capital needed to expand our operating base and develop the natural resources upon which our corporate livelihood depends.

What it comes down to is this: I believe in the future of Canada and in the positive contribution that Amoco Canada will make. Canada is a young nation, full of strength and vigour. It is blessed with bountiful mineral resources, landscapes of unmatched natural beauty, and a population enriched by a mosaic of cultural and ethnic backgrounds.

But Canada, at times, still seems uncertain of its full potential. It is still refining its particular sense of nationhood and its proper role within the family of nations. The decisions and actions we take today as business people will contribute mightily to this continuing process of nation-building, with the consequences reaching far beyond the fate of a single company or a single industry.

Amoco's acquisition of Dome and the success or failure of the merged company will affect more than its 5,500 employees, more than the wealth of those who will hold equity in the company, and more than the people who rely upon its products. The acquisition will play a part in determining whether Canada's energy industry grows or stagnates. And this, surely, will have a significant impact on Canada's drive for economic prosperity and energy self-sufficiency.

The appreciation of the audience was expressed by John A. MacNaughton, a Past President of The Club.

The Hon. Michael Wilson, P.C., M.P.

Minister of Finance

THE ECONOMY: 1984 - 1988

February 15, 1988

At a joint meeting of The Empire Club of Canada
and The Canadian Club of Toronto

Co-Chairmen: Sonja Sinclair, President
The Canadian Club of Toronto;
Ronald Goodall, President
The Empire Club of Canada

Sonja Sinclair

Some 40 years ago, when Winston Churchill was invited to Washington to address a joint session of the United States Congress, he pointed out that if his father had been American and his mother British, instead of the other way around, he most likely wouldn't have needed an invitation to speak because he would have made it to Capitol Hill on his own. I was reminded of this incident after I was looking over our guest speaker's many accomplishments, including the fact that he was at one time vice-president of The Canadian Club of Toronto.

It occurred to me that if 10 years ago Michael Wilson had decided to continue pursuing a business career instead of going into politics, he might be standing here today introducing the Minister of Finance.

Well, Mr. Minister, I know I can safely say that the job will be available to you whenever you want it, though I suspect that won't be for quite some time. According to conventional wisdom, ministers of finance don't win many marks in popularity contests, but conventional wisdom does not apply to our guest speaker. Indeed, in the 3½ years he has occupied the finance portfolio, Mr. Wilson has come to be seen as a white knight among . . . well, never mind among what. Certainly as far as the members of our two clubs are concerned, whenever he does something they like—which is often— they say, "Thank God for Michael Wilson," or as one of our guests said to me before lunch, "He is the glue that holds things together." And on the odd occasion when he does something they don't like, they purse their lips and say, "Poor Michael. He didn't want to do it, but he had to give in to political pressures."

Ladies and gentlemen, I could go on to tell you where Michael Wilson was born, where he went to school and to university, or what a distinguished business career he had before he decided to run for Parliament, but I suspect that isn't what you want. So instead, I'll simply say that I feel happy and honoured to introduce to you the Hon. Michael Wilson, Minister of Finance in the Government of Canada.

Michael Wilson

It is always a pleasure for me to be at The Canadian Club and I do thank you, Sonja, for your very kind words of introduction. If your job is available to me, I can assure you that any time you want my job, you can have it, too.

I am delighted to see that Hal Jackman wrote his own introduction again. Be patient, Hal. I have his button in my pocket. It's the 17th he's given to me in the last two months and . . .

I'm also delighted to see students from Michael Power here. This is one of the finest schools in Toronto. It happens to be in Etobicoke Centre as well. Welcome to the students here.

As I said, it's always a pleasure for me to be in Toronto at The Canadian Club meetings. I'm delighted my parents are here. They are my two strongest critics. I was just given an envelope . . . a brown envelope from my father just before I came in, so I probably received some more advice from him. Thank you very much, Dad. I'll get back to you.

We have a very strong economy in this part of the country, and I think in Toronto we probably have an economy that's one of the fastest growing and most successful in North America today. When you look at the record in the Canadian economy and here particularly in Toronto, it's a record of achievement that is rightly inspired, a strong and growing sense of assurance that we can compete on equal terms with the world's best. It's a record that speaks well of our rising economic maturity and gives Canadians good reason for compliments on another score—it leaves us well-placed to seize the opportunities presented by a decade and a century ahead. It says that working together, Canadians have accomplished much and it challenges us to recognize that together, we still have much to do. When our government assumed office 3½ years ago, we set out an orderly coordinated strategy for recovery—our agenda for economic renewal. It was a concerted strategy designed to recover lost ground and chart a new course toward a more resilient, dynamic, competitive Canadian economy. For too many years, previous governments of Canada had given a fair imitation of Stephen Leacock's celebrated horseman, who as you'll all remember jumped on his horse and rode off in all directions.

We proposed instead to set our course according to a number of coherent, mutually reinforcing principles. We would, we said, restore fiscal responsibility in Ottawa by restoring and reversing the spiral of runaway deficits and by controlling the massive growth in the public debt. We accept that we would get the government out of doing things that it doesn't do well—allowing private initiative to get on with the business of creating durable growth and productive jobs. We said that we'd put in place a framework of government initiatives to encourage investment, foster innovation and increase the international competitiveness of Canadian enterprise. From the beginning, these policies were and still are rooted in a fundamental conviction—that the wellspring of economic growth is the creative energy of Canadians themselves, their capacity to innovate and produce, their desire to excel, their determination to build a more prosperous and secure future for themselves and for their families.

And how have we been doing as Canadians? Since 1984, Canada's growth has led that of all the major industrial nations. In 1987, our performance surpassed all expectations, buoyed by strong consumer spending, the highest levels of business investment in six years, and the most housing starts in the last 10 years. When the final numbers are in, the real gain in a national income is likely to be close to 4 per cent—far ahead of most expectations.

Since 1984, Canada's record in job creation has been second to none among the major industrial nations. When our government assumed office, there was no more important goal than reducing the human toll of unemployment. In my first budget as Finance Minister, I said, and I quote, "If I have a preoccupation with any one economic target, it's with the good, satisfying and durable jobs that Canadians, and particularly young Canadians, want and need." By this measure, no aspect of a renewal offers more welcome evidence that we are on course and on the right course. Then the impressive increase in the number of jobs. Since 1984, more than 1,150,000 jobs have been created in Canada, 85 per cent of which are full-time jobs. Our unemployment rate has declined by nearly a third to its lowest level since 1981. In 1987, the unemployment rate fell in each and every province in Canada. In 1988, Canadians may look forward to a sixth consecutive year of expansion. Employment will continue to grow. And despite last October's decline in the stock market, business confidence remains high, corporate balance sheets continue to reflect good financial health.

On the inflation front, consumer prices increased 4.4 per cent in 1987. However, inflation was down from the levels over the first half of last year, and by the end of the year, inflation in Canada was increasing at a rate lower than that in the United States.

Interest rates are significantly lower than when the government took office and they're expected to remain relatively stable in 1988.

To maintain a positive climate for growth and job creation, it's essential that wage and price pressures continue to be restrained and that further progress be made over time in reducing inflation. Both monetary and fiscal policy have an important role to play in this regard.

But even without the stock market decline, the economy would not have been expected to sustain the exceptional rate of growth that was achieved in 1987. But there is no evidence of a recession on the horizon. Our own considered forecast is that growth will moderate to just under 3 per cent this year. It should then rebound in 1989 as a stimulus of tax reform comes on stream in the form of tax refunds and we begin to reap the benefit of lower consumer prices, higher investment spending, and more exports as a result of the Canada/U.S. free trade agreement.

Canadians could not have achieved these remarkable gains without resolute action by the government to put its fiscal affairs in order—itself a task of no small order. In 1984, the federal deficit and the national debt were, in plain language, out of control. To lend perspective to the gargantuan challenge that confronted us, consider the stark facts—the deficit was $38 billion and rising up from $14.9 billion in just three years. The national debt had doubled in the same period and was growing at an average rate of 26 per cent per annum. Clearly, we had to move urgently to restore fiscal stability and rebuild credibility in the government's competence to manage its finances with discipline and with restraint. To have ignored our fiscal responsibility, to have repeated the errors of the previous government, would have led to a drastic fall in confidence, an intolerable burden of debt, and an inability to maintain our social programs and cushion ourselves against the inevitable and unexpected shocks from abroad.

We undertook to bring government spending under control and we've done so. In the four years before we took office, government program spending grew at an average annual rate of 14 per cent. In the last three full years, we cut that figure to just 3⅕ per cent. This is not only less than the rate of inflation, but the lowest rate of increase in program expenditures in two decades.

We are continuing to hold the line. In 1988-89, government program spending will increase by only 4.3 per cent. We undertook to reduce the deficit and have also done so. For the current fiscal year ending March 31st, we'll meet our target of a reduction to $29.3 billion. We're projecting a further reduction next year.

It's noteworthy, however, that by far the large part of this progress has come not from tax increases, but from reducing spending as a share in the economy and discipline management of the country's fiscal affairs. We undertook to limit and ultimately stabilize the growth of the national debt and are doing so. If we had allowed the debt to mushroom unchecked, it would have by now grown to more than $100 billion larger than it has and that amounts to some $16,000 more for a family of four. By 1990-91, we will have reduced its growth rate to no more than that of the economy, and again I remind you that that's down from 26 per cent.

We set a clear and realistic course to restore sound financial management and we're holding to that course. But economic renewal required more than just restoring fiscal integrity to government. It required a revitalized private sector and a government that could respond to the priority needs of Canadians while still holding to the fiscal targets.

We set out to create a climate in which the private sector could play its role as the driving force behind productive growth and job creation. We have done so among other things by deregulating the energy and transportation sectors, by opening financial markets and services to greater competition and by privatizing some Crown corporations.

We can see from the dramatic returns that our policies have worked and will work in the future, but we cannot be and are not complacent. To build our prosperity into the 1990s, we will continue to need a dynamic private sector free to proceed with creating new markets for Canadian enterprise at home and abroad and we will continue to need government policies that welcome investment, encourage growth, and strengthen our capacity to excel.

As a trading nation, we face no more paramount challenge than securing improved access to world markets. That is why we're in the forefront of nations, working for more liberalized trade rules in the current round of negotiations in Geneva under the General Agreement on Tariffs and Trade. And that is why we've concluded the United States/Canada free trade agreement which sends a resounding signal internationally of our openness to freer trade. More specifically, its pioneering provisions covering trade and services set an example for the rest of the world.

Beginning next January 1, the free trade agreement will lower consumer prices and increase investment in jobs as Canadian firms take advantage of their improved access to the vast U.S. market. The agreement will provide new opportunities for economies of scale and Canadian production and marketing and so stimulate innovation and encourage improved productivity. It will, in short, lead to a more efficient, lower cost Canadian economy with more jobs, higher real incomes and greater confidence and security.

The government's detailed studies show that the permanent gains will be significant. By the time the agreement is fully implemented, Canadians' real incomes will have increased by $12 billion or about $1,800 for a family of four. Production should expand by 3½ per cent and we estimate a net increase of at least 120,000 jobs by 1993.

The elimination of tariffs and carefully staged phases should reduce the cost of U.S. goods imported into Canada by about 5 per cent. Businesses will have gained from the lower prices of intermediate goods that go into their own production helping to reduce production costs and so make Canadian industries more competitive—not only in the United States, but in overseas markets as well.

As Canadian firms restructure and retool their factories, the government studies show that business investment in plant and equipment will likely rise by more than 4 per cent in real terms by 1993. By that time, too, the combination of all of these factors should increase Canadian exports in terms of volume by about 3½ per cent.

It should be borne in mind that these figures undoubtedly understate the case since they do not attempt to take account of intangible benefits that cannot be estimated in advance, but are just as important. Such intangible benefits are a reduction in uncertainty once businesses know they can count on more secure markets and the confidence built by broader horizons and opportunities.

We should also bear in mind that just as freer trade expands production and growth, it will also give us the means to preserve and strengthen the distinctive social and cultural programs that go to the heart of our Canadian identity. And to those who feel that our sovereignty and culture will be undermined by the trade agreement, consider how much stronger our culture institutions have grown in the last 20 years and how much more Canadian we feel. This has been at a time when our trade with the United States has increased many ways. The free trade agreement is thus a symbol of our new maturity—a declaration of new confidence in our ability to compete and to excel.

Our competitive position will also be strengthened by tax reform which went into effect on January 1, a major restructuring of our personal and corporate income tax system. Tax reform will provide an incentive for growth in the most effective way possible—by lowering tax rates.

Personal income taxes have been reduced for more than eight out of 10 households, for nine out of 10 Canadians age 65 or older, and for the vast majority of families with children. Our new tax system is also demonstrably fair for individual Canadians—removing tax breaks that have worked in favour of some, while discriminating against others.

For the corporate sector, tax rates are also being lowered, bringing them more closely into line with the tax system of other countries, particularly the United States. The new structure will ensure that business and investment decisions in the future are based more on economic merit than on tax considerations. At the same time, many more profitable corporations will pay tax, raising that share that corporations contribute to total tax revenues.

Now, this is the first phase of tax reform. The second phase still lies ahead. It'll replace the archaic and distorting federal sales tax system that we now have with a multistage system that will be effective in supporting growth and job creation. We have been working with the provinces and others to develop the most effective means of implementing this new system, particularly the opportunity of an integrated national sales tax.

While the progress so far has been good, we have more work to do. But let me emphasize that there is no hidden message in tax reform. It is not a "cut now, pay later" proposition. It should clearly be understood that the second phase of tax reform—like the first—will neither raise nor decrease the deficit. It will simply, but importantly, bring greater equity and efficiency to our tax system.

Building on the strength of our economic renewal, we must seize the opportunities that are open to us in an increasingly competitive world. A dynamic, competitive, and growing economy provides the means for government to maintain the social services that are an integral part of the Canadian way of life. Strong economic growth, coupled with our fiscal progress, has enabled us to move forward in a number of priority initiatives important to the well-being of Canadians.

We're introducing a national child-care program which will offer parents greater choices in caring for their children and will make available more good quality and affordable child-care facilities.

We're implementing a new approach to regional development that is more responsive to regional needs and priorities and that draws fully on the ideas and the initiative of people living in the various regions.

We've begun to implement proposals to strengthen and modernize the Canadian Armed Forces in order to protect Canada's sovereignty and meet commitments to our allies.

We're providing substantial support to Canada's farm community in the face of severe international conditions, both through existing programs as well as supplementary assistance.

We provided wide-ranging support for the development of Canada's vital energy industry through energy accords with the producing provinces and additional assistance following the collapse of world oil prices.

We're embarking on a long-term strategy to apply science, technology, and innovation in strengthening economic growth and development.

And we've done all of these things within the fiscal framework that will see the national debt growing more slowly than the economy in 1991-92—the first time that that will have happened in over 13 years.

In these ways, the government is meeting its responsibility to ensure that the country can continue to meet the challenge of producing growth, jobs, opportunities, and greater security for all Canadians.

But my friends, we live in a fast-changing, volatile world. It is difficult to predict the future and even more difficult to make specific plans to anticipate future conditions. The key to our success, whether as individuals, as companies, or as governments, is to be able to respond quickly and flexibly to change when it happens. The policy of our government is designed for just that. Whether it is reducing the deficit, reducing the burden of government intervention through reduced regulation, a more flexible competition policy, privatization of government-owned commercial enterprise or increased training programs in R&D spending—all of these initiatives are directed to helping our economy adjust to change and benefit from these new opportunities. More must be done, but we've made a very good start, and working together, our collective success has proven that we're on the right track. Thank you very much.

Ronald Goodall

Thirty or 40 years hence, the student or the historian will examine the records of The Canadian Club or will read the yearbooks of The Empire Club and will note that in each of their 1986-87 and 1987-88 seasons the two clubs were addressed on two occasions by the Hon. Michael Wilson, then Minister of Finance.

The student and the historian may be intrigued by the apparent parental fascination with income taxes, budgets, and tax reform and by the obvious popularity of the minister. The reason for this fascination could well be that there are two methods of legally minimizing the impecunious effect of proposals to increase taxation while readily accepting proposals to decrease taxation. One method is to attend these luncheons where over a thousand productive minds are at work! The other method, of course, is to follow the example of Lady Godiva who successfully persuaded her husband to decrease taxes by that historic ride through Coventry! Mr. Minister, be careful what you say at these luncheons and keep an eye on Bay Street parades.

However, the pain of this budget appears slight at first glance, but as Jerome K. Jerome wrote: "Everything has its drawbacks as the man said when his mother-in-law died, and they came down on him for the funeral expenses."

I wish you well in the battle you must wage against the many who would encumber the future for the votes of today. On behalf of The Canadian and Empire clubs, I thank you indeed for your most interesting address today.

Barton Myers

Architect

A GREAT CITY AND ITS INSTITUTIONS

February 18, 1988

Chairman: Ronald Goodall, President

Ronald Goodall
Over the past five months or so, I have made several personal confessions to this audience. Today, I must confess to a misspent youth. Instead of spending hours buried in books, I wandered. True, I hiked hill and dale, climbed mountains but I was fascinated by and wandered around old, historic buildings.

Having been raised across the pond (a fact I seem unable to disguise), I had no great problem finding old buildings to wander about and admire. King Edward III and Sir Christopher Wren were names familiar to me, although I recognize that they represent but small phases in the long history of architecture. I spent days wandering around Roman ruins; I spent hours climbing up and down the narrow twisting staircases of cathedrals and castle towers, always admiring the view at the top; I spent many minutes in St. Paul's Cathedral listening in the Whispering Gallery.

This fascination has stayed with me over the years. On my trips around Canada, I have headed, so many times with wife and children in tow, for the provincial legislatures. I enjoy wandering around these large buildings and sometimes I learn a little provincial history. Today I marvel at the sparkling, tall office towers but I enjoy still the creaking wooden floors of the older, smaller office buildings.

In the 1620s, Sir Henry Wotton wrote in *The Elements of Architecture* that architecture must possess "commoditie, firmness and delight." Our speaker today has ensured that those qualities exist in today's architecture.

Barton Myers was born in Norfolk, Virginia. He established his architectural practice in Toronto in 1968 and in 1980 he opened an office in Los Angeles. Barton Myers is considered by many authorities as "Canada's best architect." In 1986, he received the Governor General's Medal, Canada's highest award for architecture, and the Toronto Arts Council Award, the highest award the City of Toronto can give to an artist.

On the international scale, Barton Myers was one of 10 architects named by *Progressive Architecture* as "cutting edge" designers. *Japan Architect* identified him as one of the top architects in the world, *Nas Dom* of Yugoslavia named him among the top 50 world architects.

Barton Myers is a fellow of the Royal Architectural Institute of Canada, a member of the Royal Canadian Academy, and a frequent guest speaker at major universities across North America and Europe.

Recent successes of Barton Myers include being winner of a limited design competition for the Art Gallery of Ontario, phase three expansion; winner of the Phoenix Municipal Government Center competition; winner of the Portland Performing Arts Center competition; designer of the recently opened show room for Hasbro Industries, the world's largest toy manufacturer; and master planner for the new CBC headquarters in Toronto.

Our speaker is involved at present with a master plan for Los Angeles County's First Street properties and the Santa Monica Civic Center improvements; a new outdoor theatre for Metropolitan Toronto; and an addition and renovations to Woodsworth College at the University of Toronto.

Ladies and gentlemen, please welcome Barton Myers, renowned architect, who will address us on "A Great City and Its Institutions."

Barton Myers

Well, it's a great honour to address The Empire Club of Canada and it's nice to see so many friends in the theatre business. It's called wallpapering the theatre. And it's sort of fitting; this is a nice award for me because it marks my 20th anniversary as a Toronto architect.

I am going to divide my address into two parts which are, as mentioned, the city and its institutions. The first part deals with four ideas or beliefs that have affected me and shaped the way I think about cities. I have a great passion for cities; they are the context for our work. And those four ideas in brief are the city as a work of art; the measure of the greatness of the city is the character of its institutions; great institutions provide focus and make place in their communities; and that time is visible in the cities.

The second part is an immodest discussion of four projects which we have currently underway, which I have the honour to say are all great institutional projects, and they include the Art Gallery of Ontario, the Phoenix Municipal Government Center, the Portland Center for Performing Arts which just opened in August, and one that I hope to be able to announce in about two weeks, winners of the Ballet Opera House of Toronto—and I will have a few things to say about that.

As architects, we were told that architecture is the "mother of the arts." That stems from the days of the Gothic cathedral when the architect made the great shell in which artists, decorators, and craftsmen contributed to the big idea of the cathedral and we have always considered ourselves to be the superior art and have always looked forward to the wonderful spirit of collaboration of artists and ourselves. But in truth, I think that the city is the mother of the arts and that really the city is the supreme expression of an art form which is the collective art form. It's something that no one person makes—no developer, no politician, no architect, no artist—and probably nothing that we do so tells people what kind of people we are. I think that in many ways the city we live in is beginning to experience that kind of renaissance. I want to quote from Lewis Mumford from *The Culture of Cities* (1938)—this is its 50th anniversary—because I think it sums up the kind of spirit I'm looking for. It says, "The city is a fact in nature, like a cave, a run of mackerel or an ant heap, but is also a cautious work of art and it holds within its communal framework many simpler and more personal forms of art. Mine takes form in the city and in turn, urban forms condition the mind. For space, no less than time, is artfully reorganized in cities—in boundary lines, silhouettes, in the fixing of horizontal planes, in vertical peaks and utilizing or denying the natural site, the city records the attitude of a culture in an epic to the fundamental facts of its existence—the dome, the spire or the open avenue, the closed court tells a story not merely of different physical accommodations, but essentially different conceptions of man's destiny. With language itself, it remains man's greatest work of art."

The second point is the one of institutions; what separates simply structures that provide settlement is man's agreement, his desire, his ambition, to produce something in common. We have the institution of government, the institution of commerce, the institution of learning that is our great universities, and so forth. I think that the measure of a great city is the measure of its institutions and I think we are at a very exciting and wonderful time in Toronto when those institutions are beginning to be realized in pace with the extraordinary physical development we've had.

I don't think you can talk about London, Paris, Rome, New York without thinking about what those institutions are that make up the city. We have the honour of being involved with the Art Gallery. And there's the CBC which I think is an institution of tremendous importance to the country and one that should be located downtown and should be approved and move ahead—and I no longer have a vested interest, so I can say that with genuine enthusiasm. I will talk about some of those institutions when I show some slides.

The third point is that those institutions have an obligation, and generally they're successful, to find a way to provide focus and make place in the city. And I think, again, when you go to those great cities and you visit those institutions, you see the tremendous role those institutions play in those communities and those societies and, obviously, as architects, the search to find out how you make that happen is very much part of what we're trying to do.

The fourth point is one that I think Torontonians have become aware of, certainly in the last 10 years, and that is the idea of time. Cities are one of the few places where one can actually experience time as a visible product and an appreciation of that is very important to the way that we make cities. I want to use one other quotation which, to me, summarizes the kind of spirit about how you make cities and is an attitude that I'd like to see here. This is a quote from a historian named Wolfgang Lutz from a wonderful book called *Studies in Italian Renaissance Architecture*: "The architects (and he's talking about some pretty good superstars—Michelangelo and Leonardo and a few of those guys)—rarely found it necessary to destroy existing buildings. They preferred to reconcile the new with old, to preserve whatever could be preserved and the urge to create new forms was always tempered by respect for what already existed. Roaming about in the squares of Venice, Bologna, Rome, one feels that, figuratively speaking, they have continued to grow. They provide the setting for the past history as well as the living present. Now, this paradox has been beautifully expressed by T.S. Eliot: "Time present and time past / Are both perhaps present in time future / And time future contained in time past."

If I could have the slides on and the lights down, I'd like to run through four projects with you which include the Art Gallery of Ontario, the Phoenix Municipal Government Center, the Portland Performing Arts Center, and the Ballet Opera House.

This is an interesting picture because, as most of you here probably remember, this is what Toronto looked like in 1958 when the tallest building in the British Commonwealth was the Bank of Commerce. Everything you see in the next slide, and this is a dated slide since I don't have an up-to-date one, but everything you see really has been created in this very short span of 30 years. Anything over six floors was within five minutes of one of the most extraordinary public transportation systems in the world for a city of this size. And I think this tremendous insurgence of growth and enthusiasm that's occurred here is now being matched by the search and the definition and the expansion and the growth of its institutions.

One of the most critical aspects of cities has been that of government. Democracy goes back in the West to Greece where we began with a city room which the Greeks call the agora. From the city room, you found your meeting halls and your performing arts, theatres, and so forth. That idea is translated into northern Europe, into Italy, in the continuation of the great public spaces and squares, obviously the most famous being the great piazza of San Marco in which the ducal palace, the Venetian city hall, co-exist with the great cathedral of San Marco.

One of the turning points, to me, in this city has been the role that the institution of city government has played, the building of the great new City Hall and the salvation of the Old City Hall where they co-exist side by side. Somehow this building has caught the spirit of the new city and has played a very critical role with the whole morality of the way we deal with growth and development, and the way we treat one another, the humanity of it. Toronto has developed as a place to live. This plaza, this great city room, is probably the most successful one that I know. This institution has really fulfilled that objective of mine, that an institution becomes a place of focus and a place that is generally shared by its city and its community.

We are new to the institutional business of culture. The first museums come out of Paris and the French Revolution. We are working with Seagrams to do what we call the Museum of the Spirits in Waterloo, Ontario, and we now have the opportunity, being the winners of a limited competition, to expand the Art Gallery of Ontario. This is a fascinating project, because it's very much like the project I mentioned from the quotation of Wolfgang Lutz. It's one of blending new and old and of respecting what has gone ahead. Three major architects have contributed: you have the Grange, you then have the second addition of the Art Gallery, and then we have the parking additions, and so we're fourth in line in an evolution of generations adding to this marvelous kind of institution. The blue areas are those where additions occur plus the kind of open-heart surgery that occurs inside in the reconditioning and reusing of existing facilities and reworking the circulation plans and giving a new kind of organizational idea to the gallery.

Now, in the competition entry, the Dundas Street front with the new entrance halls connects the original Grange and the 1930s Darling/Pearson addition. Inside, we have resolved circulation problems, giving organization so as you move through the complex gallery you can find your way around.

The sensitivity to Dundas Street, the reinterpretation of institutional ideas such as towers and hallways and gates are very much a part of the spirit of the reinterpretation and the new birth of this institution. Here's a wonderful water-colour rendering of what the entrance hall and a theme tower at the gallery might be like . . . and the arrival hall with a nice fireplace to view in the winter.

The second competition (we've been very lucky on invited competitions. I think we've won five of our last eight) was an international competition in which 60 architects from around the world applied. Ten were invited for round one. We survived that and went ahead to defeat the Japanese architect Arata Izosaki, Michael Graves of Princeton, Ricardo Legorreta from Mexico, and for one year, we had big T-shirts saying World's Champions and it was a lot of fun for us. It was a new experience. Someone said, "I see, Barton, you learned so much about working in the 'ice box'; what's it like to work in the 'hot box'?" And the ability to shift ground and move to the desert, where for four months of the year it doesn't get below 100 degrees, and for two to three weeks you can get temperatures of over 125, reminds me of my experiences of working in Edmonton, Alberta, where it's just the reverse.

There's a problem dealing with cities that have not been so fortunate as Toronto. You found that Phoenix really has no soul. It doesn't have an idea about growth. It's a very sprawling, typical suburban new city and this project plays a very similar role that, I think, the City Hall here and the one in Boston both played and that is establishing a focal point and showing the commitment of public money in an urban renewal area. It's a 12-block competition, so we developed the land uses for 12 blocks, but the focus basically is a series of buildings that make a great city room, about the size of Bedford Square, in which you have accessibility to all the functions of the city, including a new council chamber and a city hall tower, mayor's courts and meeting rooms. The space is designed so you can drive through it since most people drive automobiles and don't walk in Phoenix, but at times it can be closed off and you can do the kinds of things we do here. At City Hall when the circus comes to town, you can entertain the circus or art shows. Here's a rendering of what that square and plaza would be like. It's about the size of the Toronto City Hall square. This project is now in the final design. We'll start construction probably in the fall.

The next and last project is the Portland Performing Arts Center. This was another competition and one of our first real successes in the United States. And we were lucky again—we defeated Philip Johnson for this one. We thought he had it for sure, because the main donor was a Harvard graduate from his class and we were really the outsiders. Essentially, this is interesting because Portland is not only a fascinating city—small blocks, great streets—but we sit between two historical, nationally registered buildings: the old Rapp and Rapp movie palace (the Paramount) which we converted to a concert hall, and behind is a church—it was a copy of Old South Church in Boston, a very beautiful church on a square which is also gorgeous—and we had to do a kind of in-fill scheme of two new theatres, one of 900 seats, and a 360-seat flexible theatre and then a rehearsal hall on top. The project is very much about Portland and its use of materials and bricks and small blocks combines a lot of historical ideas about how theatres are made, but also has a lot of the come-on and pizzazz of what I think theatres are about.

This is the main street which acts as an outdoor stage and we use the metaphor of a concert hall as the lobby. So if you look in the centre of the picture, there's a great glass wall in which, symbolically, you fly and everybody arrives on stage and is an actor for a moment or two. You walk in and you face the lobby, which is a concert hall, the same way an actor experiences seeing someone from the stage and it's been very, very effective. So this is the view into the opera house lobby—two glass stairs that bring you the upper floors. And as you look back to the Opera House, you see the set onstage which is the old movie palace, now converted to a 2,750-seat concert hall. At the ceiling, there's a gorgeous glass dome created by the artist James Carpenter who won that in a competition and worked very closely with us. One gets a dazzling reinterpretation of a kind of beautiful, stained glass ceiling. The hall itself is intimate. It's probably closest to the Royal Alex in feeling. It's an Edwardian hall. We're back to the ideas of being tighter and closer, getting people closer to the stage.

We worked with a marvelous theatre consulting group called Theatre Projects. We were involved with the Ballet Opera Company here and their excellent choice for that and I think we have a real success as an intimate lively hall of about 900 seats and a lot of reinterpretation in a contemporary way of the things that made Victorian theatres work.

And then, of course, at night, the theatre works as a stage. The theatre was choreographed with 65 dancers moving up and down the stair towers, in and out of the back of these and so forth and it was very exciting for me because I hadn't really perceived that the building would work so well as a stage set and it was a marvelous kind of show.

And the last one is a blank site at the moment. In fact, we're not even sure it's a site—I hope it will be a site. And this is the Ballet Opera House competition. There's been a lot of press on that and I obviously have a vested interest in this one, but I would say that the competition technique chosen is a very interesting one. What they have done is borrowed a bit on the Portland competition and instead of having the architects take a brief or program and disappear for six weeks, they have developed a competition in which the three surviving architects—James Stirling and Moshe Safdie and ourselves—actually work the three weeks with the users. It's a little bit like a trial marriage. You can find out whether after three weeks you can live with these people or not. And then we have 2½ weeks to put together what's called an architect's sketchbook. Now, the idea behind this is that the selection of an architect is difficult in that if you do a conventional competition where the architect is remote from the user, you lose that incredibly important aspect of an intelligent client and an intelligent architect working together. I'm a great supporter, and believe that great architecture does not come from Moses and the Ten Commandments from the hills, but it really comes from intelligent clients and intelligent architects rolling up their sleeves and working together. So this competition tries to bridge that gap in some ways in that it allows the users to have an input and talk about their aspirations and ideas and reduces a little bit of that aspect that the architect is off by himself and has no one to talk to.

As you know, the block that's being contemplated is a block south of Wellesley between Bay and Yonge. I have not thought a lot about this block until the competition began and having worked on it in the last six weeks am convinced that it's a fabulous site to produce a cultural institution for ballet and opera—south of Bloor Street, next to the provincial government, closely associated with the University of Toronto, and just north of the business district to the south and to the east, wonderful mixed-use neighbourhoods that have developed in the Jarvis area, an almost ideal place.

The program is complex. It's highly ambitious and I am delighted with that and I think the Ballet Opera House's position is very much in my talk on cities and institutions. Name a great city that does not have a great ballet opera house. And the task for us is to try to live up to this tremendous aspiration to produce one of the first class facilities that's been conceived to date in the world. Thank you very much.

The appreciation of the audience was expressed by Nona Macdonald, Past President of The Club.

Pierre Péladeau

President and Chairman of the Board
Quebecor Inc.

THE QUEBECOR SUCCESS STORY

February 25, 1988

Chairman: Ronald Goodall, President

Ronald Goodall
Jacques Cartier arrived in 1534. Samuel de Champlain arrived in 1603 and established La Nouvelle France in 1608. From that beginning, our largest province grew and a people, *les québécois,* created a culture and environment unique in Canada.

When we travel through the Quebec countryside we pass the roadside shrine; we see from afar the gleaming spires of the village churches high above the roof tops; we become absorbed in the history of Quebec City, truly the most picturesque city in Canada. The traveller will be warmed in winter by thick, hot pea soup; charmed in spring by eggs fried in maple syrup; tempted in summer by the dried cod of Gaspé; all of which reminds me of the old saying: "The English know how to eat; the French know what to eat."

That uniqueness of Quebec is demonstrated also by *la fête de St. Jean Baptiste* on June 24; by the confusion on meeting a person with an Irish name who can converse only in French, reflecting an Irish ancestry caused perhaps by a century-old shipwreck in the St. Lawrence; and, of course, by the excitable Latin temperament, which I know so well.

Quebec has produced Sir Wilfrid Laurier, Henri Bourassa, Gaetan Boucher, Rocket Richard and, recently, a spate of rock stars. In other respects, Quebec has many similarities to other provinces such as in the apparent wealth of lumber, minerals and water. The provinces seem to excel in producing press barons: New Brunswick gave us Max Aitken, Lord Beaverbrook; Ontario gave us Roy Thomson, Lord Thomson of Fleet; Quebec is today producing another press baron, our guest speaker — entrepreneurs all, who started from a small beginning, and became leading international businessmen.

Pierre Péladeau was born and raised in Montreal. He earned a degree in philosophy from the University of Montreal and a degree in law from McGill. Mr. Péladeau has been described as a "Québécois contradiction." He has been honoured by the University of Quebec, the Société St. Jean Baptiste de Montréal and he earned the Order of Canada in 1987. He supported the separatist side in the 1980 referendum and chaired Montreal's Canada Day committee last year.

Mr. Péladeau is very active in community endeavours such as Le Pavillon Ivry-sur-le-lac, a rehabilitation centre for alcoholics; Maisonnée d'Oka, a treatment centre for young drug offenders; Montreal's Orchèstre Métropolitain, which endeavour presumably allows him to enjoy his love of Beethoven.

In 1950 Mr. Péladeau borrowed $1,500 to buy a local newspaper. Today he is the controlling shareholder of Quebecor Inc., a company whose sales approximated $700 million in 1987. The company publishes three daily newspapers: *Le Journal de Québec, Le Journal de Montréal* and *The Winnipeg Sun*; 51 weekly newspapers, and six magazines. The company operates 18 printing plants in Montreal, Toronto, Vancouver, and in the northeastern United States.

Ladies and gentlemen, please welcome Pierre Péladeau, President and Chairman of the Board, Quebecor Inc., who will address us today on "The Quebecor Success Story."

Pierre Péladeau

Let me first tell you that in my days as a backbencher in the business world, as owner of a small Montreal weekly newspaper, I did not think that I would some day address the Toronto Empire Club. But in recent years, I have been wondering *when* the invitation would come.

Well, here *we are* and I use the word "we" intentionally, because I believe that for at least 20 minutes, a speaker and his audience are partners: one wishing to convey his message, hoping that the others, the listeners, will receive it. As Plato used to say to his disciples: "If you want to learn, listen. You never know what the other has to say." Thank you, Mr. Chairman, for inviting me. By the way, Mr. Chairman, a good point for you: I am told that your wife is from Sorel, Quebec.

I am not a university professor. I am not an economist and I would not want to be one. They contradict themselves so much that they don't seem to know where they are going. One talks about lower economic growth next year. Others go further and predict a recession in 1989. And they want us to believe them! How come they did not see Black October Monday coming. I'd rather read my horoscope with my morning coffee. I learn more!

We don't publish editorials in our dailies because I don't want to tell our readers what to do or think. We presume they can think by themselves. And besides, I always hated to be told what to do. So I certainly won't tell them what to do. And I will not tell you what to think. I am a plain businessman, an entrepreneur. I will talk of what I know, of what I lived. Like Beethoven who wrote about his anxieties, his frights, his love, his hatred.

First of all, I will talk to you about a great success story, Quebecor. If we appear proud of our success, I sincerely believe that all of you, as Canadians, should rejoice in this accomplishment. More and more, Quebecor has become a Canada-wide company doing business throughout Canada, with plants in Quebec, Ontario, Manitoba, and British Columbia, and very soon, in Alberta. We also publish a few weeklies in New Brunswick, so I could say that we are very nearly operating coast to coast.

Although I am bold enough to assume that some of you know something about Quebecor, I still think it appropriate and timely to describe our company for your information — and for my own pleasure, as I simply love to talk about Quebecor. In 1972, we first went public on the American Stock Exchange. At the due diligence meeting organized by our brokers, E.F. Hutton, I was asked what "Quebecor" meant. Gold from Quebec. As a matter of fact, $32 million. Today, that affirmation would not be true. In 1987, only $350 million out of $682 million came from Quebec. More than $330 million came from the rest of Canada and the U.S.

It all started when I finished my law degree at McGill University in 1950 with a $1,500 loan from my mother to buy a small weekly newspaper. She insisted that in *every event of my life,* I should aim to be a winner. That is why I enjoy so much the story of the American general who, in an up-and-up restaurant, ordered a fried lobster. The waiter brought him a lobster with a broken claw. The general inquired, how come the claw was broken. You know, said the waiter, lobsters fight one against the other when they are in a common pool. It so happened that this lobster got a licking and had one of his claws broken. The general looked at the waiter, and said, "bring me the winner." So, I tried to follow my mother's advice — her command, I should rather say — because she was really "a little general."

From that modest investment of $1,500, we have grown to a company with more than $1 billion in assets, and revenues that will exceed well over $1 billion this year. Quebecor is divided in four main sectors. First, publishing: We own and operate four daily newspapers, including *Le Journal de Montréal, Le Journal de Québec, The Winnipeg Sun* and the Sherbrooke *Record*. To which we will add within days, *The Montreal Daily News.*

Le Journal de Montréal is the number-one French-language daily in North America, with a daily circulation well over 300,000. Published since 1964, it ranks just behind *The Toronto Star.* After only 23 years of publication, that's not a bad record.

The Winnipeg Sun should reach profitability this year. After only eight years, it is also something to be proud of. Ask the people of the *Financial Post,* they will tell you.

Just a few words about our new venture, our morning daily, *The Montreal Daily News.* The decision to launch a new daily in Montreal was not taken lightly, but only after several market studies and abundant research. It is not meant to compete with *The Gazette* and certainly not to pick a fight with *The Gazette.* Even though if they look for it, they'll get it. We firmly believe that there is a place for the two of us, with each one catering to the taste of its readers. The *Daily News* — in tabloid format — will put the accent on business and on sports, with a deep interest in Montreal news and in the various minority groups which do not feel well looked after. One could say that we are creating in Montreal the same situation you have here with the *Financial Post* and *The Globe and Mail.*

Let me just tell you a little story that happened last week. My 25-year-old son, who is a steady reader of Report on Business, reacted like a *Globe* reader when the *Post* came out. He found the *Post* incomplete and not as accurate as the *Globe.* I told him that I had a different view and that, maybe, it was because of the tabloid format that he had that reaction. A few days later, he came back and told me exactly that.

Changing one's philosophy from broad sheet to tabloid is like changing one's eating habit. It takes a little time (like divorcing one woman and living with another). But in my own mind, tabloid is *the* format of the future. Offering, in one corner, a choice between a broad sheet paper established for years, sure of themselves and a tiny conservative, and in the other corner, a jazzy tabloid with short stories from makeup and plenty of colour.

We have appointed as publisher of the *Daily News,* the former owner and editor of the Sherbrooke *Record,* George MacLaren. At a press conference, a question was asked as to why we had chosen the publisher of a small newspaper with 6,000 circulation to head our *Daily News* instead of inviting the publisher of a Canadian newspaper with a 50-60,000 circulation. My answer was simple and direct: George MacLaren has his feet on the ground, and if he has made money with a small newspaper, he will do well with a larger one.

Besides our dailies, Quebecor also owns a network of regional weeklies, and the number increases rapidly. As of last night, we stood at 51. I was told this morning that this figure has not changed and still stands for today.

Our second sector is the printing division. Spread throughout Canada and the U.S., we operate 22 plants. The revenues from this sector were well over $300 million during our 1987 fiscal year, and the number of employees exceeded 3,000. In the U.S., we operate eight plants, located in Boston and vicinity, New Jersey, Connecticut, Vermont, and Michigan, showing revenues of well over $100 million.

Our third sector is distribution. A vast network carrying more than 450 titles to the consumers in the largest number of points of sale in Quebec, Northern Ontario and New Brunswick. Delivery is made to over 245,000 homes while sales to retailers reach some 16,200 points of sale.

We now come to our new sector, forest products. Two years ago, I was invited to one of Donohue's fishing camps. I loved my experience. I loved it so much that I bought the company. In July 1987, Quebecor in association with the British Printing and Communication Corporation, acquired 55.25 per cent of Donohue Inc. for $320 million. A number of factors combined to make the purchase of Donohue an attractive buy. Top quality management, operations conducted by highly experienced competent personnel, technologically advanced equipment. And a list of highly prestigious clients and partners including *The New York Times* and the Gannett Group. Finally, Donohue meant association with Robert Maxwell and his corporation, potentially both a customer and an associate in future projects in Europe and the United States. Robert Maxwell will also be our partner in our new paper, the *Daily News*.

In physical count, Quebecor has 8,734 employees, that is 7,665 in Canada and 1,069 in the U.S. For the first quarter ended December 31, Quebecor experienced the highest increase in profits ever recorded for a quarter. Net income, as compared to the same quarter of last year, increased by 68 per cent and our net earnings per share rose from 30 cents to 48 cents. We seem to be on the right track.

Turning to the Quebec climate, we can state that our corporation is not the sole example of success. Scores of businesses have mushroomed in the last years. As a matter of fact, Quebec has been living a tremendous revolution in the world of finance, economy, and business in the last 15 years.

A few years ago, the word profit was looked upon by the so-called elite as a synonym for uneducated and mercantile people and French-Canadian youth was oriented mainly toward the priesthood or the so-called liberal professions of law, medicine, dentistry, pharmacy, etc. There were few engineers and very few in our graduate business schools. Today, our engineering schools are bursting at the seams: Lavalin and SNC are world-known enterprises headed by the graduates of our engineering schools.

As Matthew Fraser of the *Globe* says in his excellent book, *Quebec Inc.*, the Quebec business schools and management faculties are producing almost half of Canada's business school graduates. And he adds that business grads in Quebec have an enormous advantage over their counterparts in English Canada and the U.S. They are bilingual and thus can function as easily in Paris as in London, Toronto, or Africa.

But an observer of the Quebec scene will realize that, whereas years ago, the heroes were the great French-Canadian hockey players, or some of our colourful politicians, even in sports, things have changed in Quebec. Fifteen or 20 years ago, the star players of Les Canadiens of the NHL were Richard, Béliveau, Lafleur. The owners, on the other hand, were the Molsons who were assisted by general managers, all English speaking, such as Toe Blake, Dick Irvin, Sam Pollock and Scotty Bowman. Today, the key players in hockey are named Robinson, Naslund, Corson, Gainey, Momesso, Smith, Chelios, Svoboda, etc., but the managers are Savard, Perron, Laperrière. Only three or four hockey players are French speaking. Such an operation 20 years ago would have created a riot. Things have changed completely. Now only a few players are French speaking while all of the management is French. Ten years ago, the visit of the Toronto Maple Leafs would fill the Forum and the adjacent taverns after the game. Today, the Quebec Nordiques have replaced that rivalry. But there's no problem for the taverns. It's business as usual.

In the field of radio in Montreal, CFCF, Canada's oldest English radio station, has been sold recently to a group of young French-speaking broadcasters.

Today, recognition is given throughout the province to the people who succeed in business: Desmarais of Power Corp., the Lemaire brothers of Cascades Inc., Laurent Beaudoin of Bombardier, Claude Castonguay of The Laurentian Group — and I could name a whole series without even naming me. Most of these men have reached the top and created a new elite or, still better, they have reached "excellence," now a key word in Quebec. One could think that they all read the best-seller *In Search of Excellence.* They live it.

Recently, a well-known Canadian politician, and he was not from Newfoundland, commented on the new face lift of Montreal since Bill 101 and its signs in French. He could not understand why in his hotel room the switch was marked in only one language and indicated On and Off. His French-Canadian friend explained very simply: "You know, we French-Canadians don't need the marks in French, because we know when the light is on or off."

Every year in Quebec, new awards and prizes are created for business achievement or for leadership. It is now fashionable to present awards to the successful men and women of the year and most of the time, it is business success which is celebrated. The new idols in Quebec are the entrepreneurs, a new class growing in quality and in numbers.

Speaking of awards, you may have heard or read about Raymond Malenfant. He is the owner of the Manoir Richelieu at Murray Bay. He was recently named the Hotel Man of the Year by his fellow hotel keepers. A very significant award indeed for a man who showed immense courage in his troubled and long-lasting stand in a union issue. He was honoured because even though his premises were bombed and he himself was the victim of threats of all nature, he held through and won his battle. Unions had a tremendous importance in Quebec. The fact of honouring Malenfant shows how unions today have lost their strength and power.

The preoccupations of Quebecers are now very much oriented toward economics — and I am not talking of the type that constantly predicts the future. To wit, our Premier Robert Bourassa is an economist, and his credentials with Empire Club members should be quite acceptable. He has an M.A. in economics from Oxford and a master's degree in international and corporate tax law from Harvard. His vis-à-vis in the House and leader of the Opposition will soon be Jacques Parizeau, who has a Ph.D. in economics from the London School of Economics. Quebec used to be governed by lawyers, newspapermen and teachers. It is now governed by economists. On both sides. As they say in Paris: *"Qui dit mieux . . ."* It seems now that it's Ontario that is administered by lawyers. Am I right? Pray the Lord, your day will come.

Such is the interest for business in Quebec that *The Globe and Mail* has taken the habit of contacting French-Canadian businessmen much more frequently than ever before. And what is more, their reporters now express themselves in French.

I would also like to refer to three significant factors that played a role in the Quebec entrepreneurial resurgence. First, the Caisse de Dépôt et Placement du Québec has been an extraordinary success, and has become a formidable instrument. With its portfolio of over $30 billion it has fulfilled its two main objectives: maximize the yield on its investments and contribute to the economic development of Quebec.

Secondly, in 1979, the creation of the Quebec Stock Savings Plan was, in the words of Matthew Fraser, the most brilliant "coup" of Parizeau's political career. The plan presented many advantages: reduction of the tax load of middle and high income taxpayers; a new source of risk capital for Quebec companies; and it multiplied the number of francophones in the stock market. As Fraser admits, the QSSP has been one of the principal motors of the current business boom in Quebec.

Third and last, the Mouvement Desjardins, in the words of Fraser, is a kind of socioeconomic religion to millions of French-Canadians. With assets over $30 billion, the Mouvement Desjardins with a very bright president, Claude Béland, is present in almost every facet of business — banking, insurance, trust companies, loan companies — and holds a percentage in many Quebec corporations.

Well, I can restate that Quebec "ain't what it used to be!" And to quote Walter Wriston, the former chairman of Citibank: "Even the future is not what it used to be."

I should like to say a few words on free trade. I can well understand the uneasiness in Ontario — it also exists in Quebec, but we are a country of exports. International trade must be of fundamental importance to Canada as a whole. As Premier Bourassa stated some time ago: "We will insist on the implementation of adjustment programs, transitional periods and clauses protecting jobs and internal production against too strong an increase in imports, to facilitate the adaptation of businesses, workers and regions."

We believe, and I for one strongly endorse these views, that a free trade agreement with the U.S. opens for Canada a market of more than 200 million people, and it substantially decreases the possible risks of compensating trade tariffs being imposed by the U.S. against our exports. Let us not forget that there are presently more than 300 bills in the U.S. Congress with an unsavoury flavour of protectionism.

A few years ago the question was, "What does Quebec want?" Today the question is, "What's happening in Quebec?" I hope I answered that question for you.

The appreciation of the audience was expressed by Paul Rouleau, a Director of The Club.

Maclean Hunter Ltd.

SHARING A WORLD OF IDEAS

March 3, 1988

Robert Lewis, Managing Editor, *Maclean's*—"In the News"

Donna Scott, Publisher, *Flare*—"Living Fashion"

Elizabeth Watson, Editor, *Ontario Medicine*—"Affording Health"

Ronald Osborne, President and Chief Executive Officer, Maclean Hunter Ltd.—"Freeing Trade"

Chairman: Ronald Goodall, President

Ronald Goodall

I do not think there is anyone in today's audience who can recall Toronto newsstands without *Maclean's* magazine or the *Financial Post*. These publications have always been around. As for myself, sometimes I purchase them, sometimes I glance over my shoulder at them in the subway, sometimes I read them in the barbershop. Today, The Empire Club of Canada salutes those and other publications and wishes a belated happy 100th birthday to the publisher, Maclean Hunter Limited.

It all began on September 23, 1887, when 25-year-old John Bayne Maclean published his first issue of *The Canadian Grocer & General Storekeeper*. In the following years other magazines were added, the business purchased its own premises at 10 Front Street East and opened sales offices in Montreal and in London, England. Horace Talmadge Hunter joined the firm in 1903, a 22-year-old graduate who soon moved up the management ranks and became Mr. Maclean's right-hand man. The firm expanded over the years adding other publications. In 1905 *Maclean's* was created; in 1907 the *Financial Post* was born; *Chatelaine* came out in 1928.

In 1961, the company diversified and ventured into broadcasting, purchasing a 50 per cent interest in CFCO in Chatham, Ontario, and into trade shows with *Plastics Show of Canada*. Other publications followed and other enterprises began. Today the company has around 10,000 employees and derives over a billion dollars in revenues in Canada, the U.S. and Europe from newspapers, magazines, business forms, cable television, broadcasting, commercial printing, radio, communication services such as pagers, trade shows, and book distribution.

The Empire Club has had a long and rewarding relationship with the firm of Maclean Hunter Limited. At least one president of The Club, Thomas Howse in 1948-49, was an executive of the firm. Today, his daughter Margaret Scrivener is a director of The Club along with Donna Scott and Carlyle Dunbar, current executives of the firm. Our yearbook has been edited by people volunteered by the firm. For all of this, we thank you indeed, Maclean Hunter.

The theme of Maclean Hunter's presentation today is "Sharing a World of Ideas." Four speakers are presenting their ideas in the following order: Bob Lewis, Managing Editor, *Maclean's* magazine, will discuss "In the News"; Donna Scott, Publisher, *Flare*, will discuss "Living Fashion"; Elizabeth Watson, Editor, *Ontario Medicine*, will discuss "Affording Health"; Ron Osborne, President and Chief Executive Officer, Maclean Hunter Limited, will discuss "Freeing Trade."

Robert Lewis was born and raised in Montreal and graduated from Loyola College with an arts degree. He was a general reporter and Ottawa correspondent with *The Montreal Star*; and Montreal bureau chief, Ottawa correspondent, Boston correspondent, and Toronto bureau chief of *Time* magazine. He became Ottawa bureau chief of *Maclean's* in 1975 and its managing editor in 1983. He is married to Sally and they have two children.

Donna Scott was born in Toronto and raised in Saskatoon. She graduated from Queen's University and joined Eaton's of Canada serving in the personnel, training, buying, and merchandising departments. She joined Maclean Hunter and became personnel director then general manager of the Financial Post Conferences Division. In 1976, Ms. Scott became the first woman in Canada to be publisher of a major consumer magazine. Ms. Scott was the first private sector member of the Civil Service Commission of Ontario and is a past president of the Personnel Association of Toronto. Currently, she is a member of the Metropolitan Toronto Advisory Board of the Salvation Army, on the board of both the Hugh MacMillan Medical Centre and Grace Hospital. She is also a director of the Ontario College of Art, Magazines Canada, Junior Achievement, and is on the board of trustees of Queen's University. In 1984, she was elected by the Metro Toronto YWCA as the recipient of their Woman of Distinction Award in communications. Donna Scott is publisher of Canada's national fashion magazine, *Flare*. Ms. Scott is married to Hugh Farrell and keeps an eye on four boys.

Elizabeth Watson was born and raised in Jamaica and was educated at Hampton Academy, Malvern, Jamaica. She came to Canada in 1961 and was assistant editor of *Independent Businessman*. She joined Maclean Hunter as staff writer and associate editor, *Marketing* magazine. She went on to become editor, *Odyssey* magazine and *Style* magazine, and currently is editor of *Ontario Medicine*. Mrs. Watson is a former member of the Maclean Hunter editorial council and winner of five Kenneth R. Wilson

Awards. She is married to Wendell Watson and supervises six children.

Ronald Walter Osborne was born in England, graduated from Cambridge University with a degree in French and German and became a chartered accountant. He served as a partner of Arthur Young, Clarkson Gordon and Co. in Rio de Janeiro, Brazil, for three years and from 1979 to 1981 was a partner of Clarkson Gordon in Toronto. Mr. Osborne joined Maclean Hunter in March 1981 as vice-president of finance. He became vice-president, broadcasting, and chief financial officer in 1982, and was appointed president and chief operating officer in 1984. Mr. Osborne was appointed President and Chief Executive Officer of Maclean Hunter Limited in April 1986. He sits on the boards of the Toronto Sun Publishing Corporation and CTV Television Network. He is a member of the Canadian Institute of Chartered Accountants and the Business Council on National Issues. He is a member of the boards of Women's College Hospital, Ryerson Polytechnical Institute and the Cambridge Canadian Trust. Mr. Osborne is married to Grace and they have two sons and one daughter.

Ladies and gentlemen, please welcome Bob Lewis, Donna Scott, Elizabeth Watson, and Ron Osborne to address us on "Sharing a World of Ideas."

Robert Lewis

I come to you reasonably fresh from the Summer Games of Calgary where I spent the past two weeks. The weather was so balmy that one day the temperature was the same in Calgary and Athens. When they started calling for the wave in the Saddledome, I was glad I had a seat high up in the press box. I am here to talk about trends in the news and I want to deal with the election season that awaits us, the state of the parties and their leaders, the future of free trade. But first I want to deal with some of the trends in society at large and the Calgary Winter Games are a good place to start.

Arguably the most striking performance at the Olympics was not Zuby the Pure or Eddie the Eagle or even our own Liz and Brian show. The starring role was that played by the 10,000 citizen volunteers. They took time off from their regular duties and jobs, sometimes with full pay, and did everything from meeting VIPs at the airport to fixing photocopy machines. With a white Stetson on their heads, a song in their heart and a smile on their face, the volunteers made the trains run on time. They even made cynical reporters believe. The cheerful volunteers became as much a symbol of the

Calgary Games as the official mascots, Howdie and Heidi. They reflected the deep sense of civic pride that Calgarians had in their Games of Winter and they were a prime reason that the town can fairly claim that it did itself proud on the international stage.

As it happens, that same spirit of volunteerism is alive and well across the country. In the annual *Maclean's*-Decima poll of 1,500 people last fall, we found that 46 per cent of the respondents said that their values had shifted, that now they have a greater commitment to volunteer activities and charities in the community. Our survey also found a strong commitment to family life, a trend to staying at home for entertainment. All of that tells us mainly that the postwar baby-boom generation is growing up. It tells us that JVC and Sony have sold us a lot of VCRs and perhaps it tells us that the young professionals, having acquired so many worldly goods, are seeking deeper satisfaction.

In my business the trend is known as "yuppies in the newsroom" but no doubt you have encountered its variations in your own fields and the trend has meant new demands on employers and managers, demands for more accountability in decision-making, demands for more time off, demands for still more benefits.

So the me-me-me era has given way to the us generation. What has all of that got to do with national politics? The heightened concern for personal gratification dovetails with a growing demand for honesty and restraint in public affairs. The polls, including our own, indicate that people are generally satisfied with their personal lot in life. The Mulroney government gets good marks for handling the economy and the federal Tories have managed to make free trade the top issue in the polls where once that category was dominated by a concern about unemployment.

At the same time there is a growing impatience with patronage and conflict of interest and with the abuse of public funds. Mr. Mulroney may yet be able to turn things around if there are no more scandals. But I would guess that the election so many Tories wanted to have in September will now be put off until next spring when the Prime Minister's options will be narrowed by the approaching end of his five-year mandate. Obviously Mr. Mulroney is helped by perceptions that Mr. Turner of the Liberals is weak and that Mr. Broadbent of the NDP cannot form a government or can, depending on your fears. All the indications are that the financial coffers of the Liberal Party are low, lower than they should be in an election campaign that will be heavily influenced by paid advertising and the big brassy road show. The lack of money could be the factor that allows the Tories to survive. But Mr. Turner will be a plucky adversary. Evidently he wants the top job back. He has even resorted to relaxation therapy, doing breathing exercises in private to try to improve his delivery and his performance.

It would be reassuring to be able to conclude that the next campaign will be decided on issues, not speaking styles. But if past performance is any indication that will not be the case. A survey after the 1974 election indicated that the debate about price and wage controls influenced only 2 per cent of the electorate. The vast majority made its decision on the basis of personality, style, and so-called leadership.

In the United States the same conclusions have been reached about the last presidential election. In the report of the quadrennial Harvard seminar on the 1984 campaign (*Campaign for President – the Managers Look at '84*, Auburn House Press, Dover, Mass.), campaign managers for Ronald Reagan and Fritz Mondale are both quoted saying that, "Managing and manipulating symbols is what the election campaign was all about."

What about the free trade issue? I predict that the free trade agreement will pass the U.S. Congress by the end of the year. In Canada, after vigorous debate it will be duly implemented no matter who wins the next election. To be sure, there will be some anxious moments. For starters, the citizens of Ontario, Nova Scotia and P.E.I. are dead set against the agreement. Opinion is divided in Saskatchewan and Manitoba while the measure enjoys majority support elsewhere. Mr. Mulroney needs to ensure that all parts of the country have the chance to debate their views before the act becomes law.

In the United States the seas will also be stormy. The Senate finance committee in Washington is scheduled to resume hearings on March 17, the anniversary of the Shamrock Summit in Quebec City. But that debate likely will be sidetracked by the leadership conventions in the summer and the preoccupation of congressmen with the omnibus U.S. trade bill and the increasingly protectionist tone of many amendments. With two different versions of the trade act to reconcile, senators and congressmen are expected to spend weeks in debate. But there is still a feeling that once that great debate is over, the elected representatives will have exhausted themselves and that the Canada-U.S. trade bill will pass.

Prime Minister Mulroney is being urged by some advisers, including Peter Lougheed, to draw up his own omnibus bill and go to the people seeking a mandate. But what if John Turner is elected prime minister in a spring election? My prediction is that he would not tear up the agreement. He would implement it. The debate has gone too far. The support for an integrated North American economy is strong. Turner would have no option. And remember there are ample precedents for such policy flip-flops. Brian Mulroney once denounced free trade. And back in the mid-'70s, Prime Minister Harold Wilson objected to Britain's entry into the Common Market but then changed his mind when his Labour Party got into power. And then there was, "Zap, you're frozen," when Pierre Trudeau won the election against Robert Stanfield by denouncing price and wage controls.

In conclusion a word to the wise. Like most commentators, I have been wrong almost as often as I have been right. I am sure of only one thing: collectively the Canadian people are very wise. On free trade as with parties, I know they will do their best.

Donna Scott

I am absolutely delighted to be here and completely enthusiastic about every aspect of today. The Empire Club, Maclean Hunter, *Flare* and fashion. I had a fun time in the reception room before we came in. We have a Director of The Empire Club whose name is Monty Larkin. Mr. Larkin is famous for his limericks, so I said, "Quick, give me one on fashion." And he did, so we will have a little fun before we start. Monty, I hope I do it justice. "There was a young woman of St. Paul / Who wore a newspaper dress to a ball / But the dress went on fire / And burned her entire / Front page, sporting section and all." That's pretty quick, Monty.

Well, we are all into fashion. All I have to do is look around this room, absolutely everyone here is in fashion. Had we been here in 1887, when Col. Maclean started his company, we would have looked a lot different than we do today. Gentlemen, you would have had your top hats and you would have had them with you at all times. You would have had a waistcoat on and you would have had trousers rather tight and a different colour. Ladies, we would have had our waists all cinched in, hopefully to 14 inches with a corset. We'd have a big bustle to make our rear ends three times wider than they should be, and we would have about six layers of clothing under our long wool dresses. And the minimum weight of clothing including our big bulky hat would have been 17 pounds.

So, people have the sense to change, to recognize improvements. One point I'd like to make today is that fashion is a mirror of society. Think of the Victorian era, the era when indeed Maclean Hunter was started—very rigid rules for society in every aspect of their lives, and unbelievably rigid dress code. For men, really more than for women. And in that era, two things happened that might interest men. It was the beginning, about 1887, when the first men's suits were ever shown and seen. That would be the waistcoat, the jacket and trousers in the same fabric. But they weren't accepted for many years and they were not proper. And also in 1880, in Monte Carlo, gamblers got tired of sitting on their coattails and they came up with a new kind of dress called a tuxedo.

The tuxedo was very much frowned upon, and worn only at men's-only events, stag affairs in the country in England, until 1910. And then they were deemed to be respectable. After World War II, there was another big need in society for change after the austerity, the lack of fabrics, the lack of grace and beautiful things. And society was ready for Dior. In 1947 came the new look. And what did Dior do? He gave us voluminous long skirts, full skirts, short little jackets that were feminine. And what did men do? Exactly the same thing. Men wore double-breasted suits, with big wide lapels, big hats with big brims and big wide ties. We were hungry after those little uniforms and little short skirts and no fabric.

Fashion always mirrors the needs of the society. In the '60s and '70s, we had miniskirts, unisex clothes, no makeup, long hair, ugly things. What was that mirror mirroring? It was mirroring the age of free sex, the age of rejection of all institutions and customs and things that had been held dear in society. And so why did you bother? Why would you fuss with your clothes and your makeup and get your hair done because you were going to go to bed anyway. There's no point in fussing.

So, in the early '80s, what did we see in the mirror? We saw Reagan politics, we saw the need for individual success, we saw money, power, greed, we heard about yuppies. And we saw working women in incredibly increasing numbers coming into the workplace. We also saw a great need for and activity in fitness and health and looking and feeling good. So what happened to fashion to mirror those early days of the '80s? Well, all these women who are into the workforce for the first time, in any kind of responsible position, had absolutely no history and nothing to guide them. And what did they do, they wore a menswear look. They wore big broad shoulders, long skirts, menswear jackets. And in fact we even wore ties, because we were insecure and uncertain what was appropriate, and that was appropriate.

And also, for women who weren't necessarily in careers, that was a very comfortable look. It covered a multitude of sins, long skirts, it really didn't matter too much. So that was fine for a few years but a couple of things happened. For women who are short, they looked, as my great friend Marjorie Steele, director of The Room at Simpsons and one of the top merchants in the world, said, "Short women look like dwarfs walking in a ditch." There are a lot of wonderful short women out there and they got mad. And other women got bored with all this stuff.

Something else happened in the mid-'80s. Something else that has so affected our life and will continue to. AIDS came. And there is no more leaping into the sack. And also, in the middle of the '80s, people found a great dissatisfaction with the kind of lifestyle they had. The quality of life wasn't there. So what happened? Just as Bob has reported. We found monogamy is in, family is in, family reunions, caring, all that kind of thing. So what did that bring with it and where are we today? You know what it did. It brought being a man and being a woman and flirting.

And so in July of last year, the editor of *Flare* and I sat in a hotel lobby in Paris and we saw the next major fashion trend take place in front of our eyes. We saw Christian Lacroix, who is the next major fashion person after Dior, 40 years to the day, bring out all of the opulent feminine sexy beautiful clothes. Low cut, short, ruffles, bustles, the whole thing. And they have caught on. They have caught on because once again society is hungry for a change. Women wanted to be feminine. They are prepared to fuss and look beautiful and do everything they can. And so are men. One of the most interesting trends about men today is that young men and young women, but young men in particular, are dressing up as they never did before. When they go home and see dad after work putting on his jeans, jeans aren't cool any more for him. So they are now into the suits and shirts and the vests and the whole thing.

Another interesting thing is coming and has Madison Avenue on its ear right now. There is now in the United States—and they are two years ahead of us in terms of population peaking—there is now a shortage of women. Let me explain. In Canada the peak year of the baby boom was 1959. And men traditionally seek mates who are three years younger than they are. So, three years after the peak year there were fewer babies born. And in marketing terms, consumer marketing, it's going to have a profound effect. Men are going to have to really get back into the mating game again. And all of the status symbols that make them appear to be wonderful partners will again be important.

I am going to tell you, very briefly, how the fashion industry works. There are an awful lot of people out there who like to say that a few men who don't like women decide what all the women in the world are going to wear. That is utterly preposterous. The fashion industry is a very large industry in the major countries of the world and it is a very tough business. Here's how it works. A designer has to have been around a good long time to have the kind of financial backing and partners to be able to mount a show, once. But they do it three times a year, most of them. The show probably cost them, minimum, $1 million. They then invite the people in the world who they have attend their shows—the fashion press and the retailers of the world. So, when we are in Paris, and we are sitting looking at the shows and we see a designer, whoever it happens to be, showing their line, what is happening is that every retailer in the world who does or may carry that line and sell it to their customers is looking at it and deciding whether they'll buy or they won't. Every fashion journalist in the world is looking at it and saying will I report or how will I report. You make them or you break them. You sit there, show after show, day after day, and it's like the theatre. You see them go up and go down right in front of your eyes. It's a tough business and it's the consumer who calls the shots. It's also interesting to know that around the world, in France, in England, and in Italy, in particular, that the governments of those countries are extremely involved and helpful in organizing these events so that their industries can prosper. In the United States, not to the same extent, and in Canada, really very little.

What are we looking ahead to and where does the fashion magazine fit into all this? Well, the fashion magazine is a special interest kind of book. If you are interested in news and current affairs, you read *Maclean's*. If you are interested in fashion and lifestyle you read *Flare*. What *Flare* does is provide for people who are going to invest, provides all the information well ahead, so they can know what's coming, what are the right decisions to make and so on. The future looks very good indeed for the fashion magazines and the fashion industry. This week, if you read the Canadian census, you know that women in Canada are increasingly and dramatically appearing in career positions, professional positions, and big-income positions. Oscar de la Renta was here this week and he said in a public interview that the customer who keeps him going is the businesswoman, because she calls her own shots and she decides what clothes she will buy. Therefore, the more education people have, the more they read. They will read magazines, they will read fashion magazines. The more education women have, the more likely it is they will work all their lives. Therefore, they will buy clothes. So we have a wonderful future, it's a marvelous business, and thank you very much.

Elizabeth Watson

One recent Toronto newspaper headline read, "Severed head kept alive by scientists!" And the only sensational thing about it was that it was true! Most of the equipment needed to keep a bodiless head alive does already exist. Soon, it seems, it may be possible for us to live forever—if we are willing to pay the price. And that price will be higher than you think. Medical marvels cost more than money. They also carry less obvious, but more challenging, ethical, moral, and social costs.

Today, I'll concentrate on two trends which will affect the practice of medicine in Canada dramatically over the next few years. I've already mentioned the first—the limits imposed by economic and ethical dilemmas. The second is the burgeoning growth of the "wellness movement" with its emphasis on disease prevention and the promotion of good health.

Medical science is always a few steps ahead of the society it serves. We are constantly confronted by the social consequences of our discoveries. Consider the numerous advances in reproductive technology. Fertilization happens in test tubes. We freeze embryos and thaw them out to order. We have wombs for rent.

These techniques raise profoundly disturbing questions for society, as do lesser-known aspects of this technology such as the ability of parents to select the sex of their child, prenatal screening, and genetic research. Many life-threatening conditions can now be diagnosed early in pregnancy, giving a woman an opportunity to abort. But non-life-threatening conditions (for example, hemophilia) can also be detected. Are these grounds for abortion as well?

There are similar problems arising at the other end of our life cycle. When and how to use life-support systems, for example. The use of fetal tissue for transplants in Parkinson's disease. Is it right to keep a human head alive and discard the body? These situations pose real dilemmas for Canadian doctors and nurses and they're not going to go away.

Ed Keyserlingk, an ethicist at McGill University, says that even now our society can't afford to pay for many of the new lifesaving medical techniques. Lung, heart, and kidney transplants work, they save lives. But they are also extremely expensive and while the technology is there, the bucks are not. As Keyserlingk says, society hasn't yet had the nerve to face the problem squarely and devise a way to select who should get the lifesaving surgery and who should not. Who gets to play God?

It is morally repugnant to Canadians that the people with the most money go to the front of the line—although William Vander Zalm has suggested that this may be an option in his province. But there is a fine line between this and media manipulation by parents fighting for a needed transplant for their child. They are also able to jump the queue.

This situation is going to worsen as more expensive wonders of science become available while governments try and cut back or hold the line on health care costs. If you read publications like *Ontario Medicine* or *The Medical Post*, you will discover that the key debate today is not about which hospital will get the latest high-tech gadget. The key debate is over sufficient funding to keep beds and emergency wards open—even though provincial governments are now spending more than 30 per cent of their annual budgets on health care.

Fifty years ago, Dr. Ernst Wynder believed that it should be the function of medicine to have people die young—but as late as possible. Today, however, health economist Robert Evans warns us that if the current system continues, with the growing ability of medicine to keep sick people alive well into old age, then all the hospital beds will soon be full—of elderly patients. "We should," Evans said, "be concerning ourselves as a community with whether or not that's really what we want to buy. Do we really believe that keeping ourselves alive for another three to six months in a bed at age 85 or 90 represents improved health?" Another nasty unanswered question for society—for us—to tackle.

In the face of this threatened overload of the health-care system, people are talking more and more about the need for each of us to assume greater responsibility for our own health. Canada became a world leader in health promotion with the publication of the Lalonde report in the mid-'70s. It emphasized that there is more to health care than just a system that cares for sick people. Health Minister Jake Epp embraced this new wellness movement with the release of a landmark report in December 1986 entitled, "Achieving Health for All – A Framework for Health Promotion." That report said that good nutrition, exercise, and lifestyle changes can be encouraged for everyone regardless of socio-economic status. It bluntly acknowledged that lifestyle diseases such as nicotine addiction and alcoholism cost the system so much that our freedom to enjoy them may have to be curtailed. Finally, it pointed out that business makes better profits from a healthy society, and invited the corporate sector to join both the wellness campaign—and the moral debate.

For many physicians, the future of medicine is people taking responsibility for their own health or being forced to pay the price of irresponsibility in real dollars as well as in poorer health. There is growing support for the view that people who, of their own free will, continue to endanger their own health should be denied free access to the publicly funded health-care system. Dr. John O'Brien Bell, the next president of the Canadian Medical Association, asks, "If I spend my dollars in boozing in the local pub, get involved in a punch-up in the car park, and arrive at the emergency department for investigation and repair, why should I expect you to be responsible for the cost of my escapade?"

For those used to the enviable Canadian medicare system, it may not be a nice thought, but it is a weathervane for medical direction over the ensuing years—allocating and managing the necessarily limited funds that society is willing to provide for health service, and solving the ethical, moral, and social dilemmas that will inevitably result from those choices. We Canadians are now beginning to listen to what Dr. Brock Chisholm, then minister of national health and welfare, told us 40 years ago: 1) there is no Santa Claus, and 2) you can only cure retail, but you can prevent wholesale.

Ronald Osborne

As you have heard from Maclean Hunter's representatives here today, we are a company that is engaged in sharing many worlds of ideas. That is our business, and it is that business that keeps us alive and alert to the fast-changing world around us.

Time has not permitted us to display our wares in other areas of the communications business. Our cable TV people bring you better television signals and local community channels. Our radio and TV broadcasters keep you in touch with the world at large and your local communities on an instant-replay basis hour by hour. Our printing companies enable retailers, wholesalers, and manufacturers to display their wares to potential customers. Our business forms companies enable businesses to communicate with each other and with the ultimate consumer. Our trade shows create a forum in which vendors meet potential purchasers. Our newspapers enable you to determine conveniently each day how much time you wish to devote to a particular current topic or event, with immediacy approaching that of radio and TV but with reflective capabilities surpassed only by magazines. And our paging companies keep Elizabeth Watson's doctors in touch with their patients each minute of the day and night. Thus, we are totally committed to the communications business, the business of keeping you in touch with the world around you and potential suppliers in touch with you.

As Canada has developed over the past 100 years, so has the communications business and so has Maclean Hunter. Indeed, so have the other large communications companies in both Canada and the United States.

The title given to my segment of the program was freeing trade. I interpret this to mean free trading in ideas. Have no fear—I do not intend to embark on a diatribe concerning the ongoing negotiated free trade agreement between Canada and the United States. What more can possibly be said on that subject? Maclean Hunter has indicated on many occasions publicly that it believes that a negotiated free trade agreement between Canada and the United States can only serve to enhance the free flow of goods and services between Canada and the United States, to the benefit of both countries and their citizens, and will do much to remove the climate of uncertainty that has surrounded North American trade in recent years. It is Maclean Hunter's view that in this context the real question Canada has to ask is, "How, in the face of this necessary agreement, can we ensure that Canada remains independent, self-sufficient and strong—an environment we will be proud to hand over to the next generations?"

Time does not permit me to attempt to answer all facets of that question, even presupposing that I could, which I doubt. I would like, however, to touch upon the role of the cultural industries in that context. It is Maclean Hunter's belief, and I think it is one that most Canadians share, that Canada's cultural industries play a most important part in preserving Canadian independence in cultural, intellectual and, ultimately, economic terms. It is the job of the cultural industries to provide the media through which Canadians communicate with each other, through which Canadians view themselves and through which Canadians view the outside world.

That is not to say that Canadians should be prevented from obtaining access to thoughts and viewpoints from outside Canada. Indeed, our geography dictates that we will constantly be bombarded by the American viewpoint on the world and we also enjoy easy access through magazines, etc., to the views of the rest of the world. Indeed, in some segments of the cultural industries, the foreign media component far outweighs in terms of sheer volume the Canadian domestic media component. And that's just fine. The trick is—how do we ensure that in that context we do indeed enjoy access also to indigenous Canadian media?

The Canadian government and its negotiating team have constantly expressed their intention to preserve those mechanisms which help ensure a viable, vibrant and independent Canadian media and we are pleased that the draft free trade agreement reflects that intention. Canadians will continue to have unfettered access to all forms of U.S. and other foreign media, but it should also be able to continue enjoying access to a wide range of Canadian media.

We in Canada do tend to spend a fair amount of time navel-gazing, analysing ourselves and wondering about our identity. To some that is a fault with Canadians. I personally believe the debate is healthy and inevitable, given our geographic location and the evolution of Canada over 200 years. I am not a historian, but I would like to paint a few broad-brush strokes on how we got from there to here over 200 years. In 1776 the majority of His Majesty's colonies in North America had had enough of the Brits and declared their independence. The rest disagreed and rallied round the Union Jack. And as happens so many times in history, the issue was finally settled by territorial compromise. The royalists retained the land north of the line; the rebels settled for the larger area to the south.

Ever since that time Canada has been trying to define its identity—it's loyal, yet it's not British, it's not revolutionary, etc., etc. This debate has lasted more than 200 years, flowing with enthusiasm for the North American experience, and yet reluctant to shed totally the ties with the Old World, whether the Old World be represented by Britain, by France, or in more recent years by Central and Southern European countries and now the Far East and the Caribbean.

Canada quite naturally and logically evolved from relying upon the security blanket of what was first the Empire and then the Commonwealth to a fuller participation in the North American experience. Inevitably too the Commonwealth also changed its spots and today has a more symbolic, albeit still important but less instrumental, role to play in the evolution of its members. In effect, as the children of Britain and France left the nest, so too Britain and France have sought pastures new, most recently symbolized through the European Economic Community.

The challenge for the next 100 years of course is for Canada to take full advantage of the benefits of the North American fact, our proximity to the friendly giant to the south and his marketplace, while at the same time recognizing that Canadians want to remain Canadians. There are some who are despondent about our chance of pulling off that balancing act. I do not share that despondence. It is somewhat presumptuous of me to express a view on such sensitive and lofty issues. After all, I spent the first 20-odd years of my life in Britain, a totally indoctrinated Brit, then found my way almost by coincidence to Canada 20 years ago, promptly marrying an American. I then took my wife and kids to Brazil for three years, at the behest of my Canadian employer. What makes me so qualified to opine on things Canadian with that checkered background?

The fact is, I believe in the strength of the Canadian identity in all of its multiple parts—Canadian identity means something quite different in Quebec from what it means in Ontario and from what it means in Western Canada and from what it means in Atlantic Canada. To me, it is these simultaneous, multipart dimensions to the Canadian identity that give Canada and Canadians a texture which very few other nations can aspire to. I am confident that Canada can indeed make the transition to an economic base relying even more upon open trading with the United States while at the same time preserving and nurturing those attributes that make us all Canadian.

Maclean Hunter is one of the Canadian communications companies that bear the responsibility for creating the forum, either in print, face to face, or in the electronic medium, in which Canadians can continue to debate and to relish in their own identity.

Let me close by expressing the thanks of Maclean Hunter for giving us a forum today in which to display three of our products. The Empire Club too is in the business of helping Canada communicate with itself and with the outside world, and we very much appreciate your giving up one of your valuable sessions to enable us to make a pitch to you.

As part of our centennial celebrations we produced a magazine for staff members and alumni of Maclean Hunter. It obviously will not reflect all the objectivity that we would hope to find in the products we provide for your consumption, but I think you might find elements of interest to Canadians at large in that publication. It traces, in anecdotal rather than dry historical terms, the development of Maclean Hunter in parallel with the development of Canada. If anybody would like a copy, please leave your card with us today or simply drop me a letter. Again, many, many thanks for the platform and for your attention.

The appreciation of the audience was expressed by David A. Lewis, a Director of The Club.

The Right Hon. the Lord Carrington

Secretary General, NATO

THE ALLIANCE AND CANADA

March 9, 1988

Chairman: Ronald Goodall, President

Ronald Goodall
The 1987 white paper on defence has been the subject of much discussion and some controversy. Certain parliamentarians debate the need for Canada to remain in the North Atlantic Treaty Organization, although their own particular colleagues seem to debate otherwise. Canada's military strategies and commitments continue to create daily news headlines. In fact, one could argue that military strategies and commitments founded and created this country.

One is constantly reminded of this military past at almost every other turn in the road when travelling through this province. On frequent trips to the family's hideaway on Lake Huron, I pass through the townships of Holland and Keppel and am a stone's throw, or should I say within a grenade's throw, from the township of Arthur. Holland Township was, apparently, named after one Major Samuel Holland who served with Wolfe at Quebec and later became Surveyor General of Canada. Keppel Township was named after Captain Henry Keppel of Her Majesty's Navy who saw service in the seas off China and Japan and who was made admiral in 1869. The township of Arthur was, of course, named after the man who poet Alfred Lord Tennyson described as "England's greatest son," Arthur Wellesley, Duke of Wellington.

Turning from the military past to the military present, one listens to the debate on the need for a fleet of nuclear-powered submarines and recalls that Canada is militarily unique in already possessing a submarine fleet strategically positioned inland at the West Edmonton Mall.

This is the second time that our guest speaker has spoken to this audience. In January 1985, some six months after taking up his appointment as Secretary General for NATO, he reflected on World War II and urged our continuing commitment to NATO. His speech was entitled "Forty Years On." I note that next year marks the 40th anniversary of the North Atlantic Treaty which was signed in Washington on April 4, 1949.

The Right Hon. the Lord Carrington was educated at Eton and at the Royal Military College, Sandhurst. He was commissioned in the Grenadier Guards and served throughout World War II, taking part in the campaign in northwestern Europe. He reached the rank of major and was awarded the Military Cross. Entering the House of Lords after the war, he first held ministerial office in 1951 when he was appointed parliamentary secretary of state at the ministry of agriculture and fisheries. Lord Carrington served as United Kingdom high commissioner in Australia from 1956 to 1959 and then returned to office, successively as: first lord of the admiralty; minister without portfolio and leader of the House of Lords; secretary of state for defence; secretary of state for energy; and secretary of state for foreign and commonwealth affairs.

In 1982, he became chairman of the General Electric Company, which position he resigned to become Secretary General of NATO in June 1984. He is chairman of the trustees of the Victoria and Albert Museum, a venerable institution where I have spent many hours. In a few months' time, Lord Carrington becomes the full-time working chairman of Christies International PLC. Ladies and gentlemen, please welcome The Right Hon. the Lord Carrington, who will address us today on "The Alliance and Canada."

The Right Hon. the Lord Carrington

Any of you with the misfortune of having to speak regularly for their lunch will know that survival depends on a number of professional sleights of hand. The trick is to avoid being pinned down by precise titles; to ask more questions than you provide answers; never to say everything you know about a subject in one speech; and — above all — to seek refuge in the security of the moving target, by never speaking more than once in the same place.

As someone who can usually be relied on to be perfectly safe in these respects, I am acutely aware that I have already fallen into the biggest trap of all. The fact that it is more than three years since I last addressed The Empire Club is no real consolation — many of you may feel that it is not long enough. Neither does it help to know that your slightly conservative name belies a serious group of experts drawn from contemporary walks of life. This could indeed be the day when "the Empire strikes back."

Since the main technique which usually keeps me out of trouble has failed on this occasion, I may as well accept defeat and dismantle the other defences. I will therefore speak frankly — or as frankly as habit will allow — of current concerns affecting the NATO alliance and, if I may, of Canada's role too.

When I was last here, in January 1985, East-West relations looked very different from the way they do today. At that time, there was only a glimmer of hope that we might make progress; that we might move ahead with the task for which NATO is really in business — the search for a system of security which meets the needs of East and West at much lower levels of arms and armed forces than at present. What a transformation there has been in the three years since then, culminating, of course, in the recent agreement on intermediate-range nuclear forces. By removing a whole group of nuclear weapons, the INF agreement has brought the first real downturn in the arms buildup, it has also done so in a way which protects Western security and sets valuable precedents for the future.

But there are never unmixed blessings in international affairs. Though there is now a climate of success and new opportunity, there are new challenges too, particularly in terms of public attitudes and aspirations. Let me illustrate what I mean by putting events in wider perspective. Looking back over the postwar period as a whole, it seems to me that there are really three sorts of phases in East-West relations.

The first is when there has been a fright of some kind — Berlin Wall, Cuban missile crisis, or Czechoslovakia. With such confrontation, the security problem is obvious and urgent. However unpleasant, government and public opinion alike accept the need for strong defence. The second phase is when there is an East-West stalemate; when fear gives way to disillusion and NATO is seen as being concerned with the arms race rather than with constructive policy. In the early 1980s, for example, after Afghanistan and the Euro-missile controversy had taken their toll, there was no dialogue whatever between East and West. In these conditions, public support for defence erodes and extremist views, such as those in favour of unilateral disarmament, easily gain ground among reasonable people. The third phase is where we are now and what we used to call détente in the early 1970s.

Stagnation gives way to hope and enthusiasm. There is success in East-West relations and in arms control. In these conditions, the problem is not lack of movement but of how to manage progress sensibly, in a way which protects our interests, and does not lead to euphoric military asset stripping that could leave us bankrupt and insecure tomorrow.

These three phases are not so much cycles, as spirals. They do not reproduce themselves precisely each time round, just as history does not repeat itself. What is special at the present time is not NATO policy; NATO has always believed in going down a twin track of political negotiation, as well as military effort. The new factor is Mr. Gorbachev and the changes underway in the Soviet Union and Eastern Europe, vastly different from anything we have seen before. As a result, many people now have the impression that the long, dark days of overtly aggressive Soviet policies are over and that we should not only give peace a chance, but should give it a push in the right direction by reducing our defence effort. They may be right about Mr. Gorbachev's peaceful intentions, but whether they justify less caution on our part is a different matter. It is therefore of some importance that we should take trouble to analyse Soviet policy properly.

Now I am not one of those who believes that the more sophisticated Soviet approach to domestic and international relations which we are now witnessing should be dismissed as mere image-building. Nor do I think that we are seeing no more than a change of tactics — that having failed to control Western Europe and elsewhere by military intimidation, the Russians have now got "smart" and are seeking the same old domination by a policy designed to lull us into a false sense of security and control us when our defences are down. The present position is more complex than that.

The clearest indication we have of Mr. Gorbachev's intentions are his domestic reforms. No one of goodwill can fail to welcome a Soviet leadership which seeks to cut unnecessary military expenditure, liberalize the economy, and increase personal freedom and choice. These are all things devoutly to be wished. But the fact that this Soviet domestic process tends to coincide, at present, with concern for better relations with the West, does not mean that an identity of interest can be guaranteed to persist over the long term. Mr. Gorbachev remains a Communist and it is his system which he wants to make more efficient, not ours. We cannot be sure that orthodox communist objectives have been abandoned, particularly when one remembers, for example, that Marxist-Leninist ideology incorporates the concept of "temporary retreats" in the continuing class struggle.

When it comes to foreign policy, we can make guesses at Soviet motives. A simple desire to live in harmony with the West at reduced military levels is one possible interpretation. But Mr. Gorbachev may also want foreign policy success in order to defuse domestic opposition to the immediate effects of *perestroika* and *glasnost* — both of which may hold long-term promise but will initially unsettle many of those with a vested interest in the status quo; he may be wooing us because he wants access to Western technology; he may want to contain the influence of the United States; or contain the specific challenges presented by such developments as SDI; above all, he may want to redirect resources currently devoted to military overkill in order to drag his economy out of the smokestack era. He may be influenced by a measure of all of these considerations. We can go on speculating endlessly about motives, but my point is that we don't know for sure.

The uncertainty is compounded when you remember that things can change quickly in a totalitarian state, especially one as vast and complex as the Soviet Union. The recent troubles over Armenia and Azerbaijan took us all by surprise. Things are certainly changing fast in Eastern Europe and if this present state of flux there were to turn into overt dissent, the consequences could make Europe as a whole look a far less safe place than it does at present.

Question marks are also raised by current Soviet arms control and confidence-building proposals. The calls for "new thinking" have obvious immediate appeal to Western public opinion. To be against them, it would seem, is to be against Truth, Beauty and Motherhood. But is it accidental that these ideas also happen to play on the most sensitive aspects of Western security? Is it, for example, a pure coincidence that Soviet proposals for the denuclearization of Europe would have the effect of giving them a considerable advantage at a time when the Warsaw Pact still enjoys a vast superiority in conventional and chemical forces? Similar decoupling or wedge-driving motives might be seen in proposals for zones of peace in the Nordic region or the Balkans.

Now this is not the crude Soviet threat scenario, red in tooth and claw. My point is simply that there is enough uncertainty about Soviet motives, enough doubt about the durability of present intentions for them alone to be taken as a reliable guide for policy. Military capabilities also have to come into the reckoning.

The military situation in Eastern Europe has not yet evolved with more enlightened Soviet political thinking. The recent INF agreement may augur well for the future, but the present reality is that only 4 per cent of the world's nuclear forces are due to be eliminated. The root problem of European security is still a Soviet military machine with forces which are well in excess of what can conceivably be needed for defence purposes. In Europe NATO remains outnumbered by roughly three to one in tanks and artillery and by two to one in combat aircraft. Crude numbers can of course be argued over endlessly — and are. Capabilities are what count. And it is the Soviet capacity for surprise attack and rapid armoured offensive action that is of greatest concern to the West. They are capabilities which a defensive alliance such as NATO neither has nor aspires to.

Soviet forces, nuclear as well as conventional, have been constantly modernized and upgraded. Indeed, one of the questions which those who attribute wholly benevolent motives to current Soviet policy have to answer is why, after engaging in major improvement of their own short-range nuclear forces, the Soviet Union should mount a publicity campaign against the steps which NATO will need to take in due course to keep its own nuclear deterrent up to date and effective. It is wholly mischievous to claim that these would be violations of the letter or spirit of the INF Treaty, when they have nothing whatever to do with it.

My apologies for this background to those of you who are not blessed with an Olympic boredom threshold — winter or otherwise. But it really is important to be aware of the uncomfortable practical obstacles which still lie between us and the less militarized, less nuclear world we all hope to live in; and I wanted to explain why people like me still call for defence effort, much in the same way as a householder bothers to keep up his insurance policy, even if he has not been burgled and crime statistics are down; why people like me are serious about the radical arms control agenda which NATO has put forward, while believing that we must still do enough by way of defence to induce the Soviet Union to negotiate balanced results; why we feel that the trust and confidence which is lacking in East-West relations has to be built up by agreements which can be verified properly rather than by public gestures which can't; why people like me welcome the INF agreement as an important step while saying that one swallow doesn't make a summer and much remains to be done.

Fortunately, the task is not left entirely to people like me. Exactly one week ago the NATO Summit took place in Brussels and I must say it was a resounding success — despite some initial press reluctance to accept good news for what it is. Two points struck me as of particular significance. The first was the endorsement of an arms control effort which pays full regard to our security interests. President Reagan will go to Moscow in the spring seeking 50 per cent cuts in strategic forces with the full support of the alliance. Beyond that, the separate statement issued on conventional disarmament objectives demonstrated the importance the alliance attached to engaging the Warsaw Pact in serious negotiations which will lead to a reduction of the most visible threat we face. Meanwhile heads of government rejected any denuclearization of Europe or negotiations, at this stage, to remove any categories of the nuclear deterrent forces remaining after INF. The second point which emerged from the summit was the fundamental political unity, strength, and confidence which came through loud and clear.

The two policy statements issued during the meeting clearly dispel any notion that NATO is entrenched in a quasi-Maginot mentality, allowing itself to be outflanked by Soviet public declarations. But of course these things are generally easier for Mr. Gorbachev. He is free, more or less, to change his mind from day to day — as he did during the latter stages of the INF negotiations last year — without the need to consult his allies. NATO, of necessity, moves more slowly, its decisions built up through the truly democratic process: 16 sovereign nations, with their geographic, economic, and political differences, all have to agree before a position can be taken. East-West relations should not be seen as a competition, we seek cooperation. But one cannot escape entirely the analogy of the tortoise and the hare. We may not be flashy, but there is an inner strength and reliability about NATO's declarations, when they come, which inspire rather more confidence about the longer term.

Another thing which the summit highlighted was that Western solidarity is not a passive activity or an unequal partnership, dominated by one member, but a cumulative effort supported by each and every ally. The focus on this side of the Atlantic will inevitably be on the dynamic approach by the United States to arms control, looking back to the INF agreement and forward to the goal of 50 per cent reductions in strategic forces, an aim which is supported by all. But several countries brought their own contributions — implicit or otherwise. There is the increasing role of Spain following the positive outcome of their referendum; the new hope for improved cooperation in the southeastern flank, following the reopening of discussions between Greece and Turkey; the attendance of the French head of state at a NATO meeting for the first time since France left the integrated military structure; or indeed the improving contribution from Canada as a result of the current defence modernization.

Indeed, I have no doubt that Canada will have an important role to play in all the future activity of the alliance which lies ahead after the summit, both political and military.

In the political field, Canadian membership has always been an important source of strength. For Europeans "why NATO" is a question which hardly needs to be asked, given the central security problem which lies on their doorstep. For the United States as a superpower with global responsibilities and interests, the question can be answered with not much more difficulty. For Canadians whose borders have not been threatened for 175 years, the positive answer which has been given is the result of a very careful and deliberate appreciation of the international scene. I don't want to embarrass you by listing all your virtues. Let me just say that the leading part which Canada plays on questions of disarmament and on the human aspect of international relations reminds us of the fundamental reasons for NATO's existence — not to arm or to disarm but to treat the root cause of East-West tension which comes from the denial of human rights and freedoms. I venture to suggest that NATO membership provides you as Canadians with a central forum in which to place these concerns on centre stage, as well as the Commonwealth and the United Nations.

But the role of Canada in the military field is no less important. Your defence white paper was warmly welcomed by the alliance for two reasons. First in reaffirming that Canadian security — like that of other Western nations — is best preserved within NATO. Secondly in holding out the prospect of a revitalized Canadian contribution to conventional defence. The presence of Canadian forces in Europe is not just a political demonstration of enduring shared values and interests. They are also a real element in the alliance defence posture. Do not suppose for a moment that because your contribution may be relatively modest by comparison with others, it is regarded as an optional extra.

Strengthening conventional defences has been a vital concern for the alliance for almost as long as the military structure has existed. But the problem has not reduced over time. We cannot expect to overcome our deficiencies by expecting early or easy results from arms control. Any negotiations will be protracted and successful only if we keep up our strength meanwhile. No one, if they think about it, wants deliberately to compensate for deficiencies in conventional forces by a greater reliance on nuclear weapons. Indeed the INF agreement has brought the problem into sharper focus and underlined the need for improved conventional effort. A revitalized and effective Canadian contribution takes on particular significance at this juncture.

Most of the planned improvements for Canadian forces respond directly to specific alliance deficiencies — the strengthening of the air and ground forces in the central region, in Lahr; the planned growth, and structuring of the navy, given the crucial importance of the sea lanes in the Atlantic and High Arctic; the improvements in reserve forces, given NATO's need for prepared reinforcements.

There has to be in every Secretary General an element of the examination board. And I will not pretend that the consolidation of forces in the central region does not pose other problems. The decision to end Canada's reinforcement role in Norway shows in fact just how important the Canadian contribution has been, because urgent work is still underway to find alternative cooperative solutions to plug the gap in the northern flank.

More generally, defence resources continue to be a problem for the alliance as a whole — the more so when the euphoria of a first arms control success encourages public opinion to relax effort when the military realities remain very different. Canada has a rather good modern record in increasing defence expenditure, but much remains to be done to overcome the "rust-out" of equipment during the 1970s. I therefore hope that you, along with other NATO members, will maintain steady growth and sustained commitment to defence improvement. You have certainly made a very welcome start in terms of quantity and quality and this is recognized on both sides of the Atlantic.

I must conclude this speech with more than a casual summing up, because it is for me something of a swan song. Predictions are particularly hazardous at present, given the degree of movement which exists both in East-West relations and within East and West themselves. But one major feature is that the prospects for real progress in arms control and disarmament, and for a better relationship with the East more generally, are brighter than they have been for many years past. I dwelt earlier on the potential fragility of the improvement, not as a Cassandra, but because it seems to be that our policy response should be to do all we can to nurture steady growth, to encourage progress, while insuring sensibly against the risk of failure.

To these ends, we are already working in the alliance on a comprehensive philosophy linking the requirements of security with arms control: it needs to be elaborated further in future. We are already pressing for negotiations on conventional forces and for a global ban on chemical weapons: effort should be redoubled in these areas despite the long and difficult tasks implied by both. We are pledged, at the same time, to maintain the effectiveness of our conventional and nuclear forces; we must ensure that this is realized in practice, not as an arms buildup, but, in the words of the Summit Declaration, "by keeping up to date where necessary." As part of this pattern there is now increased recognition in the alliance of the need to relieve some of the defence burden carried by the United States and share it more evenly among the alliance as a whole: we must seek to achieve this through improved patterns of cooperation and more efficient use of resources. We have in the summit a clear message for public opinion: we must continue to maintain public support for necessary defence effort — a task where Canada, if I may say so, has an excellent record. Finally we have in the INF episode, and in our political solidarity and military determination which brought it to successful conclusion, an excellent lesson for the future.

NATO will, I know, continue to rely on Canada to contribute to all the objectives I have mentioned and to make the practical sacrifices necessary to support them. Not because — to paraphrase Lester Pearson — this will enable you to wage war; but because it will help you successfully to wage the peace.

The appreciation of the audience was expressed by Maj.-Gen. Reginald W. Lewis, a Past President of The Club.

Pierre Jeanniot

President and Chief Executive Officer
Air Canada

REVIEW OF CANADA'S EXPANDING ROLE IN THE GLOBAL MARKET

March 17, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

Although Henry Ford is quoted as saying, "History is more or less bunk," the manner in which history repeats itself is often amazing.

I find myself today, St. Patrick's Day, March 17, 1988, welcoming an Air Canada president as, I learned earlier this week, did one of my predecessors on March 17, 1983. On that St. Patrick's Day five years ago, Claude Taylor addressed The Club with a speech entitled, "Who's Listening?" We listened then as we did in October 1938 to Philip Johnson, then vice-president, Trans-Canada Airlines, who told us how that company was incorporated in April 1937, began hiring in October 1937, and had the objective of providing an "air transport service that is as safe and as well operated as any other in the world." Now, some 50 years later, that company has over 22,000 employees, revenues approximating $3 billion, carries over 11 million people a year, and remains dedicated to safety. Concerns about weather, appropriate landing facilities and pilot training have been expanded by concerns about privatization, airline deregulation, fleet renewal, and new international routes.

We also listened in April 1949 to Gordon McGregor, then president of Trans-Canada Airlines, on "International Aviation and an Empire Tie" (the reference at the time was, of course, to a relationship with a commonwealth of nations and not to flying across the ocean wearing an Empire Club tie!). We listened in January 1974 to Yves Pratte, chairman of Air Canada on "Air Canada — Challenges and Outlook." I believe that these facts prove beyond a doubt that Air Canada's frequent-flyer program of today was modelled on The Empire Club's frequent Air Canada speaker program. Today, Sir, as a benefit of this program you have a free lunch!

Pierre Jean Jeanniot was born in France, is a graduate of Montreal's Concordia and McGill universities and, we are told, has a love for philosophy and military history.

He joined Air Canada in 1955 and held various positions in research and development and management of technical operations. He contributed to the development of the first comprehensive "black box." Mr. Jeanniot was appointed vice-president, computer and systems services, then vice-president, eastern region, assuming responsibility for subsidiary and associated companies. Early 1979, Mr. Jeanniot was appointed senior vice-president, marketing and planning, and the next year was appointed executive vice-president and chief of airline operations, responsible for the day-to-day planning and operation of the airline. He became chief operating officer and effective June 1, 1984, Mr. Jeanniot was appointed President of Air Canada.

Over the years, Mr. Jeanniot has been very involved in scientific, academic, business, and community activities in many capacities, such as, president of the Canadian Operational Research Society, for which he published numerous papers on applied research; chairman of the board of directors, Université du Québec à Montréal; chairman of the board of the Air Transport Association of Canada; honorary chairman of the CBC Jerry Lewis Telethon for Muscular Dystrophy; member of the British-North American Committee, and member of the board of directors of the Toronto Ontario Olympic Council.

Ladies and gentlemen, please welcome Pierre Jeanniot, President and Chief Executive Officer of Air Canada, who will address us on a "Review of Canada's Expanding Role in the Global Market."

Pierre Jeanniot

I am particularly delighted and honoured to be speaking to The Empire Club of Toronto, one of the nation's most prestigious platforms. Our various regions, our diverse economic groups, our multiculturalism, and our linguistic duality are precious to the very nature of Canada. But they also often combine to generate centrifugal forces of potentially serious consequences for this country and its future direction. Extensive communication and dialogue are essential to our need to remain united, and to our ability to move forward as a society. And in this context The Empire Club can and does perform a vital communication role.

Speaking of communications, and since this is St. Patrick's Day, I am reminded of the story about an unfortunate Irish priest who had been caught in a flood. With the water level rising our priest had moved to the second floor of his house and was praying for help by the window. A man came by in a boat and seeing the priest in obvious trouble asked if help was needed. "No thanks," replied the priest, "I'm Irish and I know that the Lord will save me." Well the water level kept rising and the priest was forced to move to the roof of the house. A helicopter came by and the pilot shouted, "Do you need any help?" "No," replied the priest, "I'm Irish and the Lord will look after me." The water kept on rising and the priest drowned. Well, as you can imagine, he was most upset at this turn of events and as he arrived in Heaven he took his anger out on St. Peter. "I was a good Irish priest," he said, "and you did nothing to save me." "I really don't understand it," replied St. Peter. "There must have been an incredible breakdown in communication. First we sent you a boat, then a helicopter . . ." Well, so much for communications and the importance of getting the right message.

Now with this in mind, I would first like to refer to some of the myths which I believe have clouded the understanding of many Canadians, regardless of whether they live in this country's largest metropolis, Toronto, or in one of the smaller communities. I will then move on to discuss some of the realities that today confront Canada in the global arena, realities that are of great importance to our nation as we prepare to adapt to the changing world. And lastly, I will put forth some views on the challenge which must be met by this country, its business, and its people, to become truly world competitive.

We live in a world of continuous and almost overabundant information, but this seemingly does not make it easier for us to know what is actually happening around us. All too often we instinctively select from the sea of information that surrounds us the material which reflects our backgrounds, our opinions and beliefs in order to reinforce our own perception of reality. However, there are occasions when what we believe to be fact is not necessarily the case. When an inaccurate perception is believed by many, it becomes popular myth. It then gets treated as truth in our day-to-day conversations and gives rise to popular sayings and clichés. Of course many myths have at their origins some elements of truth.

There is a myth in this country that Canada is still a developing nation dependent on foreign management, ingenuity and capital. We like to project an image of ourselves as a nation that is modest about its achievements. And we never quite believe that we belong on the world stage. We are uncomfortable about praising our better industries and institutions.

Perhaps we are overly critical by nature because Canada is the only country in the world with 11 official leaders of the opposition! When two years ago, for instance, members of the Group of Five, the world's most important industrial powers, chose to invite Canada along with Italy to participate as part of the so-called G-7, nowhere were the misgivings stronger than in Canada itself.

Yet, based on the strength of our economy, our enormous natural resource base, our position in global trade, and the increasingly worldwide activities of our multinational enterprises and financial institutions, the reality is that Canada is truly an international power.

How international are we? A Canadian company is the largest commercial landlord in New York City. The world's largest baker is Canadian. And then there is that consistent world giant, Bata, the globe's largest shoe manufacturer.

These are not just isolated cases of Canadian companies that are doing well in the international arena. Well over 75 per cent of the sales for such major Canadian corporations as Northern Telecom, MacMillan Bloedel, Alcan, Inco, and Seagram come from outside the country.

And what about our institutions? The award-winning National Film Board, the world-class CBC, not to mention our musicians, writers, actors and painters who are increasingly recognized internationally.

In last year's *Fortune 500* ranking of non-U.S. companies, Canada claimed 32 entries, more than three times as many as Italy and just four behind France. What would you call a country whose economy ranks eighth in the entire world — yes, eighth. Certainly not middle-sized! And . . . while our economy may rank eighth in size, figures from the Organization for Economic Co-operation and Development show that last year Canada and Britain led the other members of the Group of Seven with a 3.75 per cent growth in gross domestic product. We are not middle-sized either when it comes to our foreign aid program — $2.5 billion per year provides a lot of Canadian assistance, medical care, and influence abroad.

And what about the development of the most important resource of all, our people, our youth? We can certainly be proud that a higher proportion of the Canadian population is enrolled in secondary and post-secondary educational institutions than in any other country except the United States.

Now there is just one more Canadian myth that I would like to put to rest. Ladies and gentlemen, Air Canada is not subsidized by the taxpayer. The reality is that we have not received any government subsidies since 1962. That's right, *not one penny in the last 26 years.*

In spite of the fact that the airline business is very much capital intensive, we have been denied access to equity, whether private or public, since the last equity infusion by the government which took place more than 10 years ago. In comparison to our main domestic and foreign competitors, we do not enjoy a level playing field. We are subjected in the same manner as every business to all federal, provincial and municipal taxes. And any funds which are being raised through the various borrowing instruments available to us are being obtained without any government guarantees whatsoever, which is fine with us.

So please, don't let anyone tell you that we still enjoy some special privileges. Those days are long gone, except perhaps in the imagination of our competitors. We do not need, nor do we seek, any special privileges, just freedom to move. The reality is that we have become a customer-service-oriented, technically strong, and commercially aggressive airline.

We are one of the world's leading airlines and very proud of that fact. Hopefully, we can lay to rest some of the myths concerning Air Canada, as people become increasingly aware of our expertise, quality, and international competitiveness.

In just a couple of weeks, Air Canada will announce its financial results for last year. I can assure you that despite the intense competition within our industry, both internationally and domestically, and several factors including the disruption to our service in the latter part of 1987, we remained clearly in the black. In fact, our profit picture for 1987 will show a modest improvement over the previous year. This year we are aiming for a significant increase in net profit. This would position us squarely with the world's more financially successful airlines — in the winners' circle, if you will. Producing an adequate profit while fully meeting the evolving customer needs is, I believe, proof of good management.

It will also provide much of the funds required for fleet renewal and expansion. To remain one of the world's leading airlines, it is essential to periodically upgrade our fleet with aircraft that offer the latest in passenger comfort and safety as well as provide Air Canada with improved operating efficiencies and costs. And you can count on Air Canada to keep offering the Canadian public a modern and efficient fleet.

But that's enough of a commercial. Let's get back to the greatness of Canada, and the fact that we have achieved quite a lot, despite our modest and demurring attitude, brings me to my second point.

I believe that as a country we have gone about as far as we can with our traditionally quiet and unassuming posture. In 1950 world trade amounted to $60 billion (U.S.). By 1960 this had doubled. By 1970 it doubled again, and by 1980 it had expanded a further sevenfold to reach $1.9 trillion (U.S.).

Of the 22 richest industrialized nations in the world, 19 belong to a trading bloc. (And, by the way, the European Economic Community is rapidly proceeding through its final phase of market integration covering all services including transportation, financial and consulting.) Only Japan, the United States, and Canada do not belong to a trading bloc. However, Japan has a domestic market four times the size of Canada concentrated in a much smaller geographic area and with a much greater degree of homogeneity. It is geographically part of the largest and potentially richest market in the world — Asia. The U.S. market is more than 10 times that of Canada. Therefore, of the richest industrialized nations, Canada could be the only one not enjoying reasonable access to a market of over 100 million consumers.

Now, what are some of the other global factors we face? There is the rise of new international competitors, those recently industrialized nations such as South Korea, Taiwan, Singapore, Hong Kong, Brazil and Mexico.

Linked to these shifts in global competitiveness and markets are the patterns of population changes. By the year 2000, there will be more than six billion people living on the globe. Even more staggering, four billion will reside in Asia. This region will produce and consume more than the rest of the world combined. As a result, Asia's industrial base will be larger than the collective industrial power of North America and Europe.

Coupled with this is the fact that demographically there is a slowing of the population growth and an increasingly aging population for Canada . . . and all of the traditionally industrialized countries such as Britain, Germany, and the United States. Motivating these people and maintaining within them the desire to change and adapt to constantly evolving world competitive conditions may prove increasingly difficult and will require a great deal of cooperation and participation from the various labour movements.

By contrast, the newly emerging industrial countries will be producing millions of young enthusiastic workers, giving those countries considerably more flexibility to adapt to changing needs.

What does all of this mean for Canada — a country still unsure of its place on the global stage, yet with all the potential to be a true world leader? This brings me to my final point.

The challenge we face is straightforward — to ensure that our entire economy is internationally competitive. As a country we must recognize the importance of the global market and strengthen our active presence. And as businesses we must not only become more aggressive in marketing our products and services to our traditional trading partners, we must also continually seek to develop new markets in all other parts of the globe.

Over the last few years, Canadians have acquired a good awareness of the Pacific Rim's economic potential. However, we must also learn to think in terms of South America . . . of Southeast Asia, and of the Middle East, as well as Africa. These are also some of the growing markets of the 21st century.

Part of the answer obviously lies in the proper harnessing of new technologies. It is through the continued research for applications of new advances in technology that Canada can develop "niche products" which can be world competitive.

But technology is only part of the answer. The character and initiative of our people will be at least as important to our success. Canada needs men and women who feel the pride of producing high-quality products and services, who have drive and initiative, and who are excited by the challenge of being world competitors, of being world leaders.

How do we ensure this happens? First, we must establish a clear vision of our role as a nation based on a firm understanding of our accomplishments and of our potential.

Second, we must work at removing the barriers, those barriers within ourselves, because of our size, our fears, our modesty. We must strengthen our confidence based on our success stories and the many assets we have as a nation.

Then, of course, we must also work at removing the barriers that are truly blocking access to markets because of existing trade restraints and quotas set up by other nations.

Lastly, we must instil an all-pervasive desire for excellence in everything we do. Recognizing that the only long-term winning formula is to achieve the best quality at the best price, we must set the standards of excellence and *show* that they can be accomplished. We must foster the pride and deep satisfaction that comes from knowing that we are truly world competitive and able to hold our own among the world's best. This and only this will allow Canadians to continue enjoying their accustomed high standard of living.

As Canadians we all share individually in the responsibility of assuming fully what we are collectively — a world-class nation. And we must get on with the task of taking our rightful place on the world stage. It is time we shed our timidity, our excessive modesty, our misgivings about our capabilities and our ability to compete in the world arena.

We have it within our grasp to be one of the world's most influential nations. It is time we project more fully this image, to ourselves and to the world, with quiet strength, dignity, and confidence. Only in this way can we make the decisions today that are so necessary to ensure our future.

Let's put to rest the myth of Canada, the average nation, and promote the reality of Canada's greatness. And let's get on with building a great future for all of us. Thank you.

The appreciation of the audience was expressed by John Freyseng, a Director of The Club.

Alexei Alexeievich Rodionov

U.S.S.R. Ambassador to Canada

THE PROCESS OF PERESTROIKA

March 24, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

I have always thought that Canada was a fortunate country. Canada has British, French and other European links and shares a common heritage with the largest English-speaking industrial nation, the United States of America. Canada was always well placed to benefit from technological and management advances developed in Europe and the U.S. Canada was always able to take, adapt and improve upon the best ideas of both worlds, the old and the new.

Canada is, however, sandwiched between two of the world's major powers, one to the south, one to the north. Across our northern border washed in summer by the Arctic lies the U.S.S.R., a vast country with a fascinating history, an interesting present, and a promising future.

A tremendous political and military power was commanded over the centuries by rulers such as Ivan the Terrible, Peter the Great, Catherine the Great and, recently, by the victors of the 1917 revolutions.

A wonderful cultural maturity was reached in the 19th century. Great poetry and novels were written by authors such as Pushkin, Dostoyevsky, Tolstoy and Chekhov. Great music was composed by men such as Glinka, Tchaikovsky, Rimsky-Korsakov and Borodin. Ever-popular ballets such as *Swan Lake* and *The Nutcracker* were written and danced.

Today we dream of visiting the canals of Leningrad, the Venice of the north, and of having the opportunity of photographing St. Basil's Cathedral in Red Square, Moscow.

We have embarked upon a transpolar ski expedition with our Soviet neighbours, a 2,000-kilometre trek from the Soviet island of Dikson, across the pack ice, around the North Pole, aiming for Cape Columbia on the northern tip of Ellesmere Island. We meet regularly in the ice hockey arena and, of course, we met many times in Calgary. May I congratulate you on your achievements at our Winter Olympics. Today we are intrigued by the new initiatives announced by our neighbour and recently have added two more words to our vocabulary: "glasnost" and "perestroika."

Canada once again seems to be well placed to benefit from another of its neighbours.

Alexei Alexeievich Rodionov was born in the Gorky region of the Russian federation. He is an economist who graduated from the Moscow Financial Economics Institute and the diplomatic academy of the U.S.S.R. ministry of foreign affairs. Ambassador Rodionov has been in the diplomatic service for 25 years, approximately 20 of those years as an ambassador of the Soviet Union. He has been Soviet minister-counsellor to India and ambassador to Burma, Pakistan and Turkey. He has been Soviet ambassador to Canada since November 1983. Ambassador Rodionov was also minister of foreign affairs of the Russian Soviet Federative Socialist Republic and a member of the collegium of the U.S.S.R. ministry of foreign affairs.

Ambassador Rodionov participated in a number of international conferences, and was a member of the Soviet delegation to the general assembly of the United Nations. He is married with two children and five grandchildren.

Ladies and gentlemen, please welcome Ambassador Alexei Rodionov who will address us today on "The Process of Perestroika."

Ambassador Alexei Rodionov

First of all, I would like to thank you for the opportunity to address such an illustrious audience. In my presentation I will dwell on a subject which attracts much attention in the West. This subject is the process of *perestroika* which is presently underway in the Soviet Union.

What is perestroika? It is a word with many meanings. But if we are to choose from its many possible synonyms the key one which expresses its essence most accurately, then we can say this: perestroika is a revolution. A decisive acceleration of the socioeconomic and cultural development of Soviet society which involves radical changes on the way to a qualitatively new state is undoubtedly a revolutionary task.

Perestroika is an urgent necessity arising from the profound processes of development in our socialist society. This society is ripe for change. It has long been yearning for it. Any delay in beginning perestroika could have led to an exacerbated internal situation in the near future, which, to put it bluntly, would have been fraught with serious social, economic, and political repercussions.

We initiated perestroika because we needed it. We could not live any longer in the way we had been living before. Of course, economically, we could have continued to move by the force of inertia. We could have still shown some growth and ensured a 2 or 3 per cent rise of the national income. But that is not the point. We tried to take a fresh look at our society as a whole, and the major conclusion we came to was that the potential of the socialist system was not being utilized fully in terms of both the human factor and a planned economy. So we took a look at our society in an attempt to understand it and to find out for ourselves what kind of society we lived in. *Glasnost* and democratization were essential for this. These, of course, are complex and extremely deep-going processes. Their purpose is not to shake our society. We want to understand our society and, on the basis of an objective analysis, to build up a concept and then make our way through this very complicated period stage by stage.

The quest is not an easy one, and it is not always easy for us to assess our historical past. We have not yet sorted out everything. But over these 2½ years we have formed a view of the society we live in and tried to take a look at the future and the roads we will follow. We are moving ahead. The process is far from simple, but we will go along the chosen path. There is simply no alternative.

There are different interpretations of perestroika in the West, including Canada. There is a view that it has been necessitated by the disastrous state of the Soviet economy and that it signifies disenchantment with socialism and a crisis of its ideals and ultimate goals. Nothing could be further from the truth.

We are conducting our reforms in accordance with the socialist choice. We are looking within socialism, rather than outside it, for the answers to all questions that arise. We assess our successes and error alike by socialist standards. Every part of our program of perestroika — and the program as a whole is fully based on principles of more socialism and more democracy — will proceed toward better socialism rather than away from it. Any hopes that we will begin to build a different, non-socialist society and go over to the other camp are unrealistic and futile.

The Soviet society has entered a qualitatively new stage of its development, a stage of restructuring and renovation. The January plenary meeting of the CPSU Central Committee confirmed once again the vital necessity of the strategic course of accelerating social and economic development and transforming all aspects of our society's life. The ultimate goal of reorganization is to resolutely overcome stagnatory processes, to impart the most advanced forms of social organization to socialism, to realize to the fullest possible extent the creative potential of the socialist system.

The overall political result is that noticeable changes are taking place in the life of the Soviet society, that positive tendencies are gaining momentum and that a new moral atmosphere is taking shape. There is a reassessment of values, while openness, truthfulness in the evaluation of phenomena, intolerance of shortcomings and a desire to set things right are being asserted as vigorously operating principles.

Work has begun to radically transform the material and technical base, to achieve a profound reconstruction of the national economy on the basis of scientific and technological progress; changes have been made in structural and investment policy.

Major measures are being taken to improve administration, the mechanism of management. New principles of raising wages have been worked out and are being implemented, unjustified restrictions on individual labour have been lifted, the organization of cooperatives in various spheres of production and services is being encouraged.

The restructuring has already produced concrete results in the field of economy. The industrial output in 1987 registered a growth of 8.9 per cent. Agriculture is developing more steadily. The annual grain production has exceeded 210 million tons. Real revenues of the population are on the increase. Labour productivity has risen considerably in comparison with the appropriate figures of the previous year.

A radical economic reform is being carried out in the Soviet Union. The essence of what we plan to do throughout the country is to replace predominantly administrative methods by predominantly economic methods of management.

The reform provides for fundamental changes in every area, including the transfer of enterprises to complete cost accounting, a radical transformation of the centralized management of the economy, fundamental changes in planning, a reform of the price formation system and of the financial and crediting mechanism, and the restructuring of foreign economic ties. It also provides for the creation of new organizational structures of management, for the all-round development of the democratic foundations of management and for the broad introduction of self-management principles.

We fully understand that an accelerated onward movement today is possible only in conditions of maximum activization of the human factor and the further development of socialist democracy. Therein lies the essence of the party's policy of deepening the socialist self-government of the people.

We have started this process. All spheres in the life of society are being democratized.

Of primary importance is the development of democracy in production and the consistent introduction of truly self-government principles. We proceed from the necessity to create such conditions that will give every worker a sense of being the true master of his plant. An important role in this connection is played by a law on the state enterprise which gives general meetings and councils of work collectives decisive powers on matters pertaining to production, social, and personnel issues.

The crucial question of the development of democracy in production is the introduction of the system of electing heads of enterprises, shops, and departments. Transition to new methods of economic management, economic cost accounting, self-financing and self-repayment put this task on a practical plane.

We consider refining of the Soviet electoral system a key element of the democratization process. The changes in this system are taking place to give the elector the opportunity to express his or her attitude to a larger number of candidates, to rid the voting procedure of a number of elements of formalism. The development of democracy also concerns the inner-party life, the activity of trade unions, public organizations. In our view all these measures are needed to secure the consistent expansion of the social base of Soviet democracy to the more active participation of every citizen, representatives of all sections of the population, in restructuring, in state and public life.

These measures are only the first steps aimed at the renovation of Soviet society on the principles of socialism, which is unthinkable without democratization. The democratization process is not a "reaction" to the demands of Western countries, a concession to outside pressure, or a movement to "civilized democracy."

Further democratization is a natural process motivated by the vital requirements and principles of internal developments, but not by the desire to receive somebody's approval.

The new atmosphere in the Soviet Union is, perhaps, most clearly manifest in glasnost. We want more openness about public affairs in every sphere of life.

Glasnost is a vivid example of a normal and favourable spiritual and moral atmosphere in society which makes it possible for people to better understand what happened to us in the past, what is taking place now, what we are striving for and what our plans are and, on the basis of this understanding, to participate in the restructuring effort consciously.

Democratization of the atmosphere in society and social and economic changes are gaining momentum largely thanks to the development of glasnost.

It is no longer a question whether we will continue the policy of glasnost through the press and the other mass media and with the active participation of citizens. We need glasnost as we need air.

I would like to point out once again that the policy of broadening glasnost and developing criticism and self-criticism, rather than playing at democracy is a matter of principle for us. We regard the development of glasnost as a way of accumulating the various diverse views and ideas which reflect the interests of all strata, of all trades and professions in Soviet society. We won't be able to advance if we don't check how our policy responds to criticism, especially criticism from the ordinary citizen, if we don't fight negative developments, don't prevent them, and don't react to information from the people.

Glasnost, criticism and self-criticism are not just a new campaign. They have been proclaimed and must become a norm in the Soviet way of life. No radical change is possible without it. There is no democracy, nor can there be, without glasnost. And there is no present-day socialism,nor can there be, without democracy.

The period our country is living through can be described as a turning point. A new ideological and moral atmosphere has been established in society. People's activity, vigour are growing, their rich intellectual potential is unfolding.

A theoretical and political program of restructuring has been worked out. Its key directions are democratization and radical economic reform. We used the 70th anniversary of the October Revolution to thoroughly assess our past, draw lessons and analyse the restructuring drive as a natural stage of development, linked in transition to modern forms of organization in socialist society.

Naturally, there have been and will be difficulties. Many of them were engendered by contradictions during the initial, transitional period of restructuring. Inertia, the habit of thinking and working in old ways and, in some people, an unwillingness to keep abreast of the times and the fear of losing privileges made themselves felt. There have emerged leftist, avant-garde sentiments and aspirations to do everything in one stroke, and ensuing panic and disappointment in the event of failure. Conservatism and skipping stages are two sides of the same coin. Objectively, they mean dragging up the past and leading toward the revival of command-and-administer methods.

The restructuring process is directly connected with Soviet foreign policy, predetermines the further advancement of our peace offensive by interlinking the peaceful character of the Soviet foreign and domestic policy. We need normal international conditions for our internal progress. But we want a world free of war, without an arms race, nuclear weapons and violence, not only because this is an optimal condition for our internal development, it is an objective global requirement that stems from the realities of the present day.

But our new thinking goes further. The world is living in an atmosphere not only of nuclear threat, but also of unresolved major social problems, of new stresses created by scientific and technological advancement and by the exacerbation of global problems. Mankind today faces unprecedented problems and the future will hang in the balance if joint solutions are not found. All countries are now more interdependent than ever before and the stockpiling of weapons, especially nuclear ones, makes the outbreak of war, even if unsanctioned or accidental, increasingly more probable, due simply to a technical failure or human error.

In short, the Soviet leadership has come to the conclusion that there is a need for new political thinking. Furthermore, we are vigorously seeking to translate this new thinking into action, primarily in the field of disarmament. This is what prompted the foreign policy initiatives the Soviet Union has offered the world.

For all the contradictions of the present-day world, for all the diversity of social and political systems in it, and for all the different times, this world is nevertheless interconnected and interdependent. We are all passengers aboard one ship, the Earth, and we must not allow it to be wrecked.

Politics should be based on realities. And the most formidable reality of the world today is the vast military arsenals, both nuclear and conventional, of the U.S.S.R. and the U.S.A.

This places on those countries a special responsibility to the whole world. In this connection I would like to briefly touch upon the Soviet-American summit in Washington.

Undoubtedly the summit became a major event not only in our bilateral relations with the U.S., but also in world politics in general. The talks in Washington have, on the whole, justified our hopes. The results of the summit have marked the beginning of a new very important stage in international relations. The main outcome is the signing of the INF Treaty. This is the first step toward real destruction of the nuclear arsenals. The treaty has shown the possibility of a reversal of the arms race toward disarmament. Now the point is to preserve the atmosphere which made it possible to conclude the treaty, to continue to act constructively and consistently.

The intensive talks in Washington centred on the issues of 50 per cent reduction of strategic offensive weapons. Both sides were able to make considerable progress in this matter and agreed to speed up the work on completing a draft treaty so that it could be signed preferably during the next summit in the first half of 1988.

There was also a useful exchange of views which served to clarify each other's positions concerning regional conflicts, the development of bilateral ties, and human rights. On some of these aspects it seems likely that both sides could identify a specific solution.

A useful result of the Washington talks is that we have been able to formulate a kind of agenda for joint efforts in the future. This puts the dialogue between our two countries on a more predictable footing and is undoubtedly constructive.

In general, the talks in Washington helped considerably to improve the atmosphere in the world at large and in America itself in terms of its more correct and tolerant perception of the U.S.S.R. But it is so far too early to speak about a drastic turn in our relations.

Today the U.S.S.R. and the U.S. are closer to the common goals of strengthening international security. But the goal is yet to be reached. There is still much work to be done, and we must get down to it without delay.

In conclusion, I would like to use today's meeting as an opportunity to dwell on the issues of trade and economic relations between the Soviet Union and Canada.

The Soviet side attaches great importance to the development of trade and economic ties with Canada regarding them as a solid material basis for political relations between our countries. We believe that good economic ties contribute to a better mutual understanding between sides which in its turn facilitates the solution of political problems.

The Soviet side is prepared to develop broad and versatile economic and trade relations with Canada on the basis of equality and mutual benefit, to search for new progressive forms of those relations.

This is especially important in the light of a drastic reconstruction of the whole system of trade and economic ties of the Soviet Union with foreign countries which opens new promising prospects of enhanced cooperation in this field. For example, the ongoing reform gives more freedom of action and flexibility to Soviet enterprises regarding the establishment of direct ties with their foreign counterparts and makes it possible to create joint ventures with participation of foreign capital in the Soviet Union.

Many Western companies, particularly those which have long-standing trade and economic links with Soviet organizations have shown interest in those new forms of economic cooperation. In the past six months alone, proposals for joint ventures have come from over 200 firms, and about 40 ministries in the Soviet Union are considering them.

We hope that Canadian companies will take an active part in the creation of joint enterprises in the Soviet Union. For my part I can assure you that corresponding proposals submitted by Canadian firms will receive careful consideration from the Soviet side.

In conclusion, I reiterate that the Soviet side is prepared to further expand Soviet-Canadian trade and economic ties, to actively search for ways of improving the overall balance and structure of our mutual trade, and in particular, to increase the share of machinery and equipment in it. For a solution to those tasks we are counting on the understanding and active cooperation of the Canadian side both on the governmental and private levels. Thank you.

The appreciation of the audience was expressed by Brig.-Gen. Stephen F. Andrunyk, a Past President of The Club.

Charles D. Ellis

Managing Partner, Greenwich Associates

INVESTMENT POLICY AND THE COMPETENT STRANGER

April 7, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

The word "strategy" was derived from the ancient Greek word *strategos* which meant a general, a military leader. "Strategy" is the term applied to the science of planning and directing military operations as distinguished from the term "tactics" which is applied to the use made of troops within those operations.

There are two types of actions which can be taken within the military strategy, actions of offence and actions of defence. Strategic offensive actions include envelopment which is the procedure of gaining the enemy rear, cutting communications and then destroying the enemy position; double envelopment; the turning movement; penetration and pursuit. Strategic defensive actions include position defence which is the procedure of securing a specific battle position; mobile defence and flanking positions.

The terms strategy and strategic planning appear to have been introduced into the business vocabulary in the 1920s. Peter Drucker defines strategic planning as "the continuous process of making present entrepreneurial decisions systematically and with the greatest knowledge of their futurity." Many ideas have been advanced and many texts written on the application of strategic planning to business. However, it seems to me that business today is turning again to military concepts to use in conducting business. In the current spate of takeovers, one hears and reads of military concepts such as the poison pill, the white knight and the golden parachute.

This return to military concepts may lead to new business strategies. One of my favourite business authors, C. Northcote Parkinson, apparently has discovered that in certain fields of warfare, the number of enemy killed varies inversely with the number of generals on one's side!

Charles Ellis earned a B.A. at Yale, an M.B.A. (with distinction) at Harvard Business School, and a Ph.D. at New York University. He has taught at the Yale School of Management and at the Harvard Business

School.

Before joining Greenwich Associates, an international business strategy, consulting, and research firm, Mr. Ellis was vice-president of Donaldson, Lufkin & Jenrette and an associate of Rockefeller Brothers Inc.

He is the author of four books (*Investment Policy*, *The Second Crash*, *Institutional Investing*, and *The Repurchase of Common Stock*) and more than 50 articles on business, finance, and investment management. He is a chartered financial analyst and an editor of the *Financial Analysts Journal*. He has served two terms as a trustee of the Institute of Chartered Financial Analysts and one term as president.

Mr. Ellis serves as a trustee of Phillips Exeter Academy and of Eagle Hill School. He is an overseer of the schools of business at New York University, and serves on the visiting committee of the Harvard Business School.

Mr. Ellis and his wife, Susan, live with their sons, Harold and Chad, in Greenwich, Connecticut.

Ladies and gentlemen, please welcome Charles D. Ellis, managing partner of Greenwich Associates, who will address us today on "Investment Policy and the Competent Stranger."

Charles Ellis

Investment policy does not enjoy much popularity. Almost everyone agrees that it is a "good" thing, but almost no one does anything about it.

An extraordinary paradox prevails in the field of investment, particularly professional investment. The paradox is that 99 per cent of all the efforts and energy and skill of investment professionals is devoted to a difficult, even disagreeable task in which they're very unlikely to be successful. And if successful, the success will be small and not long-lasting. Meanwhile, they spend less than 1 per cent of their time and effort on a task that takes very little time, is not very difficult, yet is nearly sure of success and brings good rewards.

The very hard, seldom-rewarded task is to "beat the market" by outsmarting and outworking the competition. The relatively easy and rewarding task is to determine each client's real needs and then set reasonable goals and structure portfolios that can and will meet them.

I plead with those who are not in the investment management field to have a greater degree of respectful distrust for those who are. They are wonderful people. They are brilliant. They are articulate and they have charm. They work very, very hard. And they have the best intentions. They truly want to win.

However, they have misplaced their bets and you—as their client—own the bets. I urge you to be cautious and skeptical. Moreover, I advocate that you do something about it.

First, let me tell you a little bit about investment management. There are three ways in which you might try to achieve superior results: one is physically difficult; one is intellectually difficult; and one is emotionally difficult.

Warren Buffet, John Templeton, Dean LeBaron and Warren Goldring and a very few others have staked out the intellectually difficult way of beating the market.

Intellectually difficult investing is pursued by those who have a deep and profound understanding of the true nature of investing, see the future more clearly and take long-term positions that turn out to be remarkably successful. We admire them, but only in retrospect. At the time of their doing their best work, we see them as misguided. We do not want to do what they are doing because it looks so unpromising.

Most of the crowd is deeply involved in the physically difficult way of beating the market. See if you don't recognize the physically difficult right away. They come to the office earlier; they stay later. They read a larger number of reports more rapidly. They go to more breakfast meetings and more luncheon meetings and more dinner meetings. They are on the telephone, making more calls and receiving more calls than all the rest. They carry huge briefcases home at night, determined to get ahead by reading more reports before the morrow. In every way they possibly can, they put enormous physical energy into trying to beat the market by outworking the competition. What they don't seem to recognize is that so is almost everyone else.

Being incapable of doing the intellectually difficult, and reluctant about the physically difficult, I have set about the emotionally difficult approach to investing. This straightforward, untiring approach is simply to work out the long-term investment policy that's truly right for you and your particular circumstances and is realistic given the history of the capital markets, commit to it and—here is the emotionally difficult part—hold on.

When your friends turn to you and say, "Wow! have I got an opportunity for you! This is a great time to buy!" be absolutely uninterested. And when they turn to you and say, "Oh, Lord, this is it. It's going to be one hell of a crash. Get out now while you can!" you must simply be not interested, absolutely sound asleep. No intellectual effort; no physical effort; but for most, emotionally far too difficult. It suits me just fine. It requires no great genius and no great brawn, but it works.

Now, what is investment policy and whose responsibility is it? First of all, just as war is too important to leave to generals, investment policy is too important to leave to investment professionals. And the reason is simple. Investment managers know a great deal about a great many things in investing—the economic outlook for every major nation, the earnings expected for dozens and dozens of companies, the prices of hundreds of stocks, etc. But their expert knowledge has nothing to do with the specific client. Yet setting sound investment policy depends primarily on knowing the whole story of the specific client's financial situation, expectations and needs and the client's fears, constraints and goals.

Managers will be preoccupied by the demanding daily details of investing while clients' goals and needs are long-term. There's only one way to establish the right investment policy: it must be done by the client.

How can you be a superior client? First, know your own financial situation. Know your long-term goals. Know what your limits are. But be careful. Most people approach investments as if the right "solution" were mathematical, and their investment objectives rational. The objective factors are usually not the most important parts of the "best" investment policy. Experience teaches that the subjective and emotional factors are usually more important because the emotional errors—buying too high because of excessive confidence or selling too low because of excessive anxiety—do more harm than rational errors. So you need to know as well what is your emotional situation and what are your emotional constraints. What riskiness can you live with and live through? Can you hang on when the pressure is most intense and the data most compelling that you are clearly wrong? If not, recognize your own emotional realities—and learn to live well within them.

To become a superior client, you will want to study and understand the capital markets, how they behave over the short and long run, so you will never be surprised or shaken by their future behaviour. Benign neglect is vital to superior clienting.

Select the managers you admire, respect and trust as human beings. Here's the test: if their investment performance is poor for two or three straight years, would you gladly give them more money to manage? If your answer is not clearly in the affirmative, you should not choose that manager—you don't trust him enough. Encourage the managers when their recent results look poor, for they will desperately need it. And then be "reserved" when the current results look great—they don't need praise and applause when they've been lucky and the market's been with them.

Be sure that each manager understands your specific goals and your specific limits. To do this you really must put it in writing. Insist on regular and formal meetings. At these meetings, which need only take 15 minutes' time, restate your goals and constraints and ask, "Is there *any* reason to change our specified goals or our defined constraints?"

Also insist on a careful restatement of the investment philosophy and decision-making process of the investment manager and ask, "Have you made *any* changes in your philosophy or your process?" If there are no changes, you then review the operation of the portfolio since the last meeting to be sure it matches agreed-upon policy. After this, the real meeting is completed. It shouldn't take more than 15 minutes to do all of the serious work because there really should be nothing "new" and nothing that's "interesting."

Commit yourself absolutely to the discipline of setting and adhering to sound policy. Avoid the many fascinating, enticing distractions that are so prevalent in investing and you will avoid a lot of trouble. In this way, you can assure the achievement of truly good performance: performance that really does meet the real goals of your specific fund.

Now, I'd like to offer you a short test: You are called by Mr. Mulroney to the Hill. He takes you aside and says, "If you will accept the mandate, your nation is going to send you on a secret mission. Your name will go down in history as one of Canada's great national heroes. You will be very safe while on your mission. But you will be gone for 10 long years, and for the entire 10 years you will be incommunicado.

"I have some good news for you," he goes on. "First, your family is being brought here in an hour to say goodbye and to wish you well. They will have been briefed about this mission and will be thrilled that you have been chosen.

"Second, I have retained the services of a highly competent investment professional. You do not know this professional. I regret to say she cannot come to Ottawa today, but we do have about an hour before your family will arrive and I have put pencil and paper in the next room. If you would just go into that room and take the available hour to write down for the Competent Stranger your complete investment policy, the Competent Stranger will implement your policy exactly as you state it. And when you return, the portfolio for which you have been responsible will be returned to you—having been managed faithfully by the Competent Stranger in accordance with your instructions."

Some test! Could you pass it to your own satisfaction? Of course, it's only a story. It's just to catch your attention. But if you are not able to sit down and write out in an hour's time what you are trying to do with your portfolio and how you intend to do it—in such a way that a competent and able professional could take those instructions and fulfil them—you should at least consider making a serious study of your objectives, your risk aversion, the nature of the capital markets, your cash inflow and outflows, and the design of an investment policy that is truly right for the long term, for you.

Being a superior client is not easy. It means taking an important responsibility and doing the work. But this is one investment that is guaranteed to pay off. I urge you to make the investment.

The appreciation of the audience was expressed by Douglas L. Derry, a Past President of The Club.

John F. Fraser

President and Chief Executive Officer
Federal Industries Ltd.

WHAT'S GOOD FOR THE WEST . . .

April 14, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

The idea that fortunes could be made in the West seems to have been with us forever. Even I went west! The West seems to have always exerted a magnetic attraction. Perhaps the reason for this idea arose from stories about the successes of the 49ers in the California gold rush or from stories about the fortunes made by Charley "The Lucky Swede" Anderson and by Big Alex "King of the Klondike" McDonald in the last years of the 1890s.

Even Giacomo Puccini heard these stories and the opera *The Girl of the Golden West* was written in 1905, a story set in the California gold rush about the love of Minnie, the owner of a saloon, for Dick Johnson, a bandit. Eventually, Minnie saved Dick from the gallows and, I believe, they lived happily ever after. Robert Service heard these stories too and we now have "The Shooting of Dan McGrew" and "The Cremation of Sam McGee."

Perhaps as a further reminder of these stories, atop the dome of Manitoba's legislative building stands Golden Boy, a five-ton, 13½-foot statue. Golden Boy resides, of course, in Winnipeg, the home of our speaker, and the home of Federal Industries Ltd., the maker of a new fortune in the West.

I must draw your attention for a few moments to the remarkable success story of Federal Industries, due in no small way to our speaker today. Incorporated in 1929, Federal Industries was a major grain-handling company which sold its grain elevators for $90 million cash in the late 1960s. The company invested those monies and became a management company. In the late 1970s the company needed fresh leadership and in 1978 our speaker was brought in to turn the company around and sort out its investments. Since that time revenues have risen from $100 million to $1.6 billion. Subsidiary and investee companies include such well-known names as Cashway Building Centres, Direct Film, Jelinek Sports, Willson Stationers, Chromalox, Russelsteel, Canadian Motorways, Thunder Bay Terminals, The White Pass & Yukon, and Golden West Steel. The company has the objective of becoming "a great Canadian company."

John Foster Fraser was born in Saskatoon, and earned a commerce degree from the University of Saskatchewan. Shortly after graduation Mr. Fraser, along with a university friend, acquired a truck transportation company in Saskatoon. He served as president of the company over a nine-year period of rapid growth until the company was sold in 1961. Mr. Fraser moved then to Winnipeg, ignoring the theory that all should travel west to make a fortune, and acquired Hanford Drewitt Ltd., a local retailing business. In 1969 he became president of Norcom Homes Ltd., a manufacturer of recreational vehicles, mobile homes and factory-built housing. He has been described as "the consummate CEO in Canada — he can run anything"; he has been named as one of Canada's important business decision-makers; and his ability to drive a hard bargain in corporate acquisitions has been noted. The 1986 acquisition of Canadian Corporate Management Co. Ltd. earned Mr. Fraser inclusion in the top 10 newsmakers of 1986 by the *Financial Times.*

Mr. Fraser is a director of a number of companies including the Bank of Montreal, Investors Group Inc., Canada Development Investment Corporation, Inter-City Gas Corporation and Thomson Newspapers Limited. Mr. Fraser is currently the chairman of The Council for Business and the Arts in Canada. He serves as a director of The Conference Board of Canada, the Canadian Council for Native Business and is on the policy committee of the Business Council on National Issues.

Mr. Fraser is active in cultural and community affairs. He received the Manitoba Chamber of Commerce Outstanding Business Achievement Award for 1984 as Business Citizen of the Year. He is past president of the Manitoba Theatre Centre and a member of the Cultural Policy Review Committee of Manitoba. In 1980 he was appointed one of six trustees responsible for the restructuring and reorganization of the Winnipeg Symphony Orchestra, a restructuring made easier by a 10-year interest-free loan of $150,000 from Federal Industries.

Mr. Fraser and his wife, Valerie, have two children, John, Jr., and Lisa Ann.

Ladies and gentlemen, please welcome John Foster Fraser, President and Chief Executive Officer of Federal Industries Ltd., who will address us today on "What's Good for the West . . . ."

John Fraser

Members of The Empire Club are to be envied. You have had the privilege of hearing some of the great speakers of our times — world leaders, international statesmen, the bright lights of business, science and the arts. With all this experience, you are probably Canada's greatest authorities on speeches. Better than anyone, you know the classical structure of a speech — tell them what you're going to say, say it, and tell them what you said.

I'm going to turn the tables on that today. I'm going to start off by telling you what I'm *not* going to say. I'm not going to say that free trade is vital to the future of Canada. It's not that I don't *want* to say it. And it's not that I don't believe in it passionately. I do. It's just that after I had accepted your Club's very flattering invitation to speak to you today, I proposed the free trade agreement as my subject — and I was graciously, but quite firmly, deflected from that course. To quote your President, Ron Goodall, "The Club has been inundated with free trade speeches lately."

And right up front, I must admit this deflection really took the wind out of my sails. As chairman of the Manitoba Committee for Free Trade, I was enthusiastically looking forward to making my pitch to this very prestigious and influential audience. It was, however, quite clear that another speech on that topic would not be widely appreciated.

So I am *not* going to question why Ontario — the one province in Canada with the most to gain — would be opposed to the free trade agreement. And I am *not* going to point out that 90 per cent of Ontario's exports are to the United States. Nor will I mention that Ontario has been the *one* province that has benefited tremendously from our first attempt at free trade — the Auto Pact. I *won't* even express my puzzlement as to why Bob White — the leader of the union that has gained most from free trade — would be opposed to the new agreement. And I certainly *won't* tell you that most westerners find David Peterson and Bob White an "odd couple" — to say the very least.

I *won't* even mention that most Canadian industries are ready for the challenge — or that our important resource-based industries would benefit. You've heard that before.

And finally, I *won't* say that the prospect of a loss of sovereignty is nothing but a red herring — as witnessed by the undisputed sovereignty and individual cultural identity of the European nations in the free trade bloc of the EEC.

I won't say any of that. And it's too bad, really. Because I have no doubt that it would have been a great speech — a real barn burner. I might have reached such heights of eloquence that the few people in this room who may still be skeptical about free trade would have leapt to their feet, tears in their eyes, ready to storm Queen's Park and confront David Peterson in his lair. After all, I've made a number of pro-free trade speeches in Manitoba — and you all know what happened to Howard Pawley. But David Peterson can stop shaking in his boots since I will bow down to the wishes of The Club. Ron Goodall suggested that you might like a perspective on the West — and to prevent any confusion, that's Western *Canada* — not the other side of Spadina.

I'll set the stage with a brief overview of the current economic situation in the western provinces. I'll then move on to the political arena and give you the news you've all been waiting for — the outcome of the next federal election. And finally, I will give you my impression of the broader, more fundamental issues concerning the West today — and their implication for the future of Canada.

To start with the positive — I'm pleased to report that the strong economic recovery so evident in central Canada during the past several years is starting to spread throughout the West. It now appears that the growth in 1988 *in most* western provinces will exceed the national average.

British Columbia avoided any post-Expo slowdown and enjoyed strong economic growth in 1987. That positive momentum seems to be carrying over into 1988. The lower Canadian dollar and the strong housing market in the United States have given a solid boost to the lumber and pulp and paper industries on the West Coast. While U.S. housing starts are coming off somewhat — and the recent increase in the value of the Canadian dollar is worrisome to all of our exporting industries — there is still reason to be confident that strong growth will continue in B.C. through '88.

As you know, as go oil prices, so goes Alberta. This is the one province in Western Canada that has suffered the most over the past several years. However, assuming oil prices stabilize in their current range and gas prices don't deteriorate further, the very encouraging recovery that started last year in Alberta should continue through 1988. Having said that, the Alberta economy still has a long, long way to go before it even comes close to the level of activity achieved in the early 1980s.

The economy in Saskatchewan has been hit hard by a triple whammy — the depressed agriculture, potash, and oil and gas markets. But with the potash countervail threat now resolved, oil prices apparently stabilizing, and the farm sector being aided by subsidies, the province can look forward to at least modest economic growth in 1988.

That brings us to Manitoba which has, in recent years, had one of the highest rates of growth of any of the western provinces. Unfortunately, this above-average growth has been largely the result of massive public expenditures. The huge hydro development in northern Manitoba and the North of Portage development in downtown Winnipeg have provided a strong stimulus to the Manitoba economy. But, as these publicly funded projects wind down and the agricultural sector remains depressed, we can expect lower rates of economic growth in Manitoba over the next few years.

However, the overall economic picture in the West is brighter today than it has been for five years. You may therefore wonder why the political picture is so murky. If things are looking up economically — why does western alienation still colour the political landscape? Surely, economic growth should wipe out discontent with the political and economic leadership of Canada. Unfortunately, that does not appear to be the case.

I'm sure the great majority of you are sick and tired of hearing about "western alienation" — and, indeed, I am too. But it is a reality — and it is certainly an important wild card in the next federal election. So we cannot afford to ignore it. While it may not be as intense as it was during the great oil price battles between Alberta and Ottawa, western alienation is alive and well. And, believe me, it is very deep-rooted.

For many decades, the perception in Western Canada has been that the federal government has catered to Quebec and, to a lesser extent, Ontario, at the expense of the West. As the Liberal government was in power for so long, the apparent central Canada bias was previously perceived to be the exclusive property of the Liberal Party. There was, therefore, a strong and long-held belief that if we could just toss the Liberals out of power in Ottawa, the West would finally get its long-overdue "fair shake." Indeed, the massive Tory victory in 1984 was the cause of great jubilation in Western Canada. We believed — obviously naively — that all the past wrongs and injustices, real or perceived, would be immediately set right.

You can therefore imagine the disillusionment, puzzlement, and finally anger that developed in the West as the perception spread that the Conservative government in Ottawa was really not much different than the Liberals — that is, they were apparently continuing to cater to central Canada at the expense of the West. The CF-18 fiasco left deep, deep feelings of betrayal in many western Canadians. Understandably, the reaction was most intense in Winnipeg, echoing the hostility and anger over the move of Air Canada's maintenance facilities from Winnipeg to Montreal in the 1960s.

These developments have, unfortunately, led to great feelings of frustration — many people are asking "where do we go now?" While the majority of western Canadians are, by nature and background, small "c" conservatives, their present disillusionment with both the old line parties could well lead to increased support for the NDP in the next federal election. At least that seemed to be the way the wind was blowing as recently as a few months ago. Normally, that might not seem all that important. The CBC generally predicts a winner before the polls even close in the West. But given the lack of overwhelming support for either the Liberals or Conservatives at the moment here in central Canada, the unthinkable could happen.

The West might finally have the opportunity of determining the outcome of a federal election! On election night, some people in Ontario may actually have to stay up late to watch the western polls come in — someone besides John Turner, that is.

However, before you start buying pink neckties — and betting on which of our major banks will be nationalized — I should quickly mention that there has been a recent and potentially important "shift in the wind" that appears to be altering the political landscape in the West. The new factor is the great free trade debate. Forgive me — I know I said I wouldn't speak of it. But describing current politics in the West without discussing free trade is like describing the Toronto skyline without mentioning the CN Tower.

Without question, free trade is a very major and high profile political issue in the West. In fact, feelings are so intense that the NDP and the Liberal positions on free trade appear to be undermining their support — and this development is working to the benefit of the Tories in Western Canada. Historically, the great majority of western Canadians have been free traders. Further, Premiers Vander Zalm, Getty and Devine are all in favour of the free trade agreement, and they are promoting it actively. The one naysayer in the West was Howard Pawley, and his voice is clearly in the wilderness now.

So, my fearless prediction is that the combination of the underlying support for free trade in Western Canada, the present disarray of the Liberal Party in the West, the active support of most western premiers, and a new Tory government in Manitoba (yet another fearless prediction), will lead the federal Conservative Party to a comfortable victory in the West. They might lose a few seats, but I don't think it will be too many. And given my earlier prediction that the outcome of the next federal election will be determined in the West, you can draw your own conclusion. Let me add that I think it will be a majority. Slim, perhaps, but a majority nonetheless. Tell Allan Fotheringham you heard it here, first!

As interesting as it is to speculate on these scenarios, they are as changeable as the chinooks that befuddled the world at the Calgary Olympics. I would now like to look beyond the short term to the more permanent, fundamental and underlying currents of the West. Because life will go on, one way or another, after the next election. The question is — where is it going on to?

That's the question that really concerns me. In fact, it's the reason I am so hot on free trade just now. You see, I firmly believe that western alienation is much more than just discontentment with the government in Ottawa. Or that it could be quickly solved by having a more western-oriented government in place. Indeed, I believe that western alienation is the symptom of something much deeper. It is a symptom of the fact that there is a fundamental problem in the very nationhood of Canada — with the shape, structure and strength of this country.

That problem can be summed up in one word — imbalance. And I am afraid that the main source of that imbalance is located right here within the reach of the shadows of the towers at King and Bay.

Before you get alarmed, let me assure you that I am not about to spoil your digestion by indulging in gratuitous Toronto-bashing — a sport that frankly ranks with CBC-bashing and fed-bashing as a favourite western pastime. I am simply going to take this opportunity to point out that Toronto's incredible ascent — in terms of power, clout and size — is not necessarily a good thing, whatever it might have done for your housing market.

With the growing concentration of population in the region, there is growing political power. Then, there is the growth in economic power experienced during the last 10 or 20 years.

To those two factors we can add the extraordinary concentration of corporate power now centred in Toronto. This will — in time — have serious and adverse economic and political ramifications. There is nowhere near as great a percentage of major head offices in New York as there is in Toronto. Further, the U.S. has many important and growing centres of commerce in addition to New York — Chicago, Boston, Dallas, Denver, San Francisco, Los Angeles immediately come to mind. But in Canada, as Toronto continuously expands its commercial dominance, Montreal, Winnipeg, Calgary, and Vancouver steadily decline in relative importance. Companies like Federal Industries, with a Winnipeg base, are increasingly rare. And I think this is a very ominous trend that, if allowed to continue, will further distort the already unequal economic and political balance of our country.

In short, the reason that Toronto's otherwise admirable growth and strength are neither good nor healthy is the simple fact they aren't being matched anywhere else. All other cities in Canada have been dwarfed in comparison. Toronto is a vortex that has sucked in a disproportionate share of the head offices, the capital, and the bright young Canadians looking for a future. Imbalance of this nature threatens Western Canada — not to mention the other regions. That trend, if allowed to continue unabated, will finally weaken Canada. And — here's the rub — eventually it will weaken Toronto as well. To paraphrase — and correct — one of your great, if misguided, phrasemakers, a certain Mr. Kwinter, what's bad for Canada is bad for Ontario, and bad for Toronto. Without question, the absence of reasonable economic growth in other regions of Canada will, over time, have a very negative impact on Toronto.

But before you start to bemoan the decline and fall of the empire represented here today, let me give you some encouragement. At this moment in our history, there are two initiatives pending that potentially represent the most fundamental shift in the Canadian economic and political landscape since Confederation. And, in combination, I believe they will result in the first real opportunity for the rebirth and rebuilding of regional power that is so essential to the restoration of political and economic balance in this country.

I believe that the combination of the Meech Lake accord and the free trade agreement might just do the trick. Now I certainly realize that there is considerable opposition to both of these important initiatives — much of it understandable and some of it justifiable. Certainly many thoughtful, conscientious and dedicated Canadians are concerned about the impact of one or the other of these two agreements—and, in some cases, both. Indeed, it would be virtually impossible to introduce initiatives of such magnitude and long-range importance without having some negative impact.

However, I genuinely believe that the serious regional disparities and resulting regional alienations are much more negative and threatening to the future of Canada. Whatever their flaws, these two initiatives are the best shot we have at correcting the existing imbalance.

To begin with, the Meech Lake accord — by giving more power to the provinces — should help to equalize our present heavy central Canada political orientation. Certainly, it will result in a more even spread of political power across the country and, in a nation as regionalized as Canada, I believe that is a very good thing. As I understand it, the Meech Lake accord will permit the regional governments to be more responsive to the very distinctive characteristics, attitudes and aspirations unique to each region. Such a development will, in my view, result in a stronger, better balanced and more harmonious Canada.

Just as the Meech Lake accord will start to address our political imbalance, the proposed free trade agreement will do much to correct our long-existing regional economic disparities. It will do more than just give the entire country an economic boost. It will also help the regions develop and gain strength — not only from their own regional markets but from the large and rich markets that stretch from coast to coast just south of the border.

Let's just take Winnipeg and Manitoba as an example. Winnipeg was once one of the most important business centres in Canada. But over the years, its relative commercial power has been diminished dramatically. Many of its home-grown and well-respected companies have either been acquired by large, national corporations headquartered in Toronto, or they have themselves moved there.

The two major problems that have been impeding Manitoba's economic development are the barriers to the U.S. market and the high transportation cost involved in reaching major markets in central Canada. These two factors have forced Manitoba-based companies to exist on the relatively small markets of Saskatchewan, Manitoba and Northwestern Ontario.

But the free flow of goods and services across the border south of Winnipeg would open up the large and growing markets of the U.S. Midwest — including the dynamic markets of Minneapolis and St. Paul located just across the border. There are over two million people in these cities alone — more than the populations of Manitoba and Saskatchewan combined! Those markets are just a few hours south — compared to the next closest markets of two million people which are a thousand miles either east or west of Winnipeg. Geography is a fact of life in Canada and transportation is a major cost of doing business.

I can readily foresee strong economic ties developing between Winnipeg and Minneapolis, Omaha, Denver, and Dallas. Here's something to remember for the next time you play Trivial Pursuit — Winnipeg is closer to Dallas than it is to Toronto. It is much more efficient for Vancouver to ship to Seattle than to Edmonton . . . much more efficient for New Brunswick to ship to New England than to Toronto. The natural transportation corridors for Canada are north/south as well as east/west. And so is the natural flow of goods and services *if* the barriers to trade are removed. All roads don't necessarily lead to Toronto.

At the same time, the flow of duty-free manufactured goods from the United States into Manitoba will have a positive impact on the future growth and viability of the province's important transportation, manufacturing, and mining industries. Such positive developments in the region would not weaken central Canada, as any loss of western markets could quickly be replaced on the other side of Lake Ontario. And, ultimately, as regional markets get stronger and become truly thriving, that will enhance central Canada's market growth prospects in this country once again. Other strong and growing regions will not diminish the centre. Other strong and growing provinces will not diminish Ontario. Other strong and growing cities will not diminish Toronto.

Indeed, I am convinced that the combined impact of the Meech Lake accord and the free trade agreement will launch Canada into a new and sustainable period of balanced economic growth — and will result in a political structure that recognizes more fully the regional nature of the country. Last, and perhaps most important of all, the successful implementation of these two initiatives will reduce much of the antagonism, alienation and disharmony that has distressed and distracted our country for the past 20 years.

When I began my remarks today, I promised that I wouldn't say that free trade is vital to the future of Canada. I didn't, and I won't. But I did say — and I will say it again — that the *rebirth of regional power* is vital to our future. And free trade is one of the things that is vital to that.

By the time you have sorted out what I did and didn't say today, I hope one message comes through loud and clear. By moving forward together, in harmony and with confidence and optimism, to take full advantage of the exciting opportunities soon to be available to us, we have a great deal to gain — as Westerners, as Easterners, as Canadians. Thank you.

The appreciation of the audience was expressed by Frederic L. R. Jackman, a Director of The Club.

Sheila Copps

Member of Parliament

THE ROLE OF OPPOSITION

April 21, 1988

Chairman: Ronald Goodall, President

Ronald Goodall
Throughout history, there have been men and women who have listened to the call to service and have risen to the challenge of their times; men and women who were not afraid of opposing a majority.

Boadicea, queen of the Iceni, suffered under Roman rule. Eventually, she led her English tribe in a revolt against the Roman invader. Boadicea organized her troops and reduced Roman London to ruins. Boadicea introduced a new weapon into warfare, a chariot with sword blades attached to the chariot wheels.

Joan of Arc, the Maid of Orleans, heard the voices of the saints and was placed at the head of French troops. Joan of Arc raised the siege of Orleans and enabled Charles VII to be crowned King of France.

Several hundred years later, in 1692, a 14-year-old girl led a band of four either elderly or very young people and defended a small fort on the south shore of the St. Lawrence River. Madeleine de Vercheres held that fort for a week against a band of Iroquois attackers.

I must make it clear at this point, Madam, that I am not advocating that members of Parliament enter the House in a rather dangerous looking chariot with a cross and a musket in either hand! I am merely giving examples of some people who were not afraid of opposing a majority. There are others. Henry VIII also rose to the challenge of his times but I hesitate naming him before this audience.

I believe we have a speaker with us who is certainly not afraid of opposing a majority and could well be rising to the challenge of today.

Sheila Maureen Copps was born and raised in Hamilton and educated at the universities of McMaster, Rouen in France and Western Ontario, graduating with an honours degree in languages.

She spent several years as a journalist with the Ottawa *Citizen* and Hamilton *Spectator* before entering the political arena on a full-time basis as a constituency assistant to the former Ontario Liberal Party leader, Dr. Stuart Smith.

Miss Copps entered the Ontario legislature in 1981 as the member for Hamilton Centre and entered the House of Commons in 1984 as the member for Hamilton East. In both institutions she has served as Opposition critic on health and welfare.

I hesitate again to mention the paternal as opposed to the maternal influence. But our speaker followed the example of her well-respected father by being ejected from the provincial legislature and by running for the leadership of the provincial Liberal Party. In 1982 she came in second after David Peterson. She is the first woman to record these two achievements.

Some of her colleagues in the House have not been too polite—she has been called a "titmouse" and told "Just quiet down, baby." The immediate response was the book *Nobody's Baby* published in 1986 as a guide to women and minorities who seek to improve their position. Our speaker has attracted a lot of media attention. Some comments are not so nice. According to the press, "Keeping Sheila Copps quiet is like trying to shut down a sawmill," and she is "fast off the mark" in question period. Although identified some time ago as a member of the "Liberal rat pack," recent media comment appears to identify Miss Copps as a potential leader of the Liberal Party with the possibility of being Canada's first woman prime minister, our own Margaret Thatcher.

Miss Copps is married to Richard Marrero and they have one daughter, whose birth credited our speaker with yet another first, being the first member of Parliament to have a baby while in office.

Somehow or other, she has managed to spend time in community organizations such as Operation Lifeline, Injured Workers Legal Assistance Group and the Social Planning and Research Council.

Ladies and gentlemen, please welcome Sheila Copps, member of Parliament, who will address us today on "The Role of Opposition."

Sheila Copps

Well, first of all, I'm extremely happy to be here. I wanted to talk to you originally about the role of women in Parliament and in legislatures and how few we are in number and how long it takes us to rise to the top, but I've just come back from Manitoba and I realize that that issue may in very short order become rather redundant. So, instead of talking about the somewhat clichéd view about the role of women in Parliament and legislature and how we are too few in number, I thought it might be appropriate to look at the role of the Opposition. And, of course, in doing some research on this extremely important topic, I came to discover that many former politicians of illustrious ilk on three sides of the House have actually spoken to The Empire Club on this issue—more specifically, John Diefenbaker spoke to The Empire Club on that particular issue in the '50s; Stanley Knowles has also spoken to The Empire Club on that issue; and Lester Pearson spoke to The Canadian Club—one of your competitors—on the same issue in 1959. One of the interesting things about the three illustrious gentlemen is that all of them chose to speak on the issue only when they were in Opposition and, somehow, when they found their way into government, the tune changed.

We may have seen a little bit of that over the last four years, where for many years we saw an extremely aggressive Opposition on the part of the Conservatives led by people like the renowned former minister, the Hon. Erik Nielsen, and yet somehow, when they changed from Opposition into government, the role of the Opposition became aggressive, heinous and detrimental to the democratic process.

Well, I'm here, in fact, to argue just the opposite. I didn't realize that I was actually going to have a former leader of the Opposition in two successive provincial governments in the person of the Hon. Edward Jolliffe here today. So really, *plus ça change, plus c'est la même chose* and I hope that he will be able to give me some pointers by the end of my speech.

All of us know that in government we have different interest groups that must be served. We have big labour, big capital, East versus West, big city versus small town, welfare versus lower taxes, etc., and government must continually, in the words of C.E.S. Franks, who wrote *The Parliament of Canada*, make a mix of trade-offs and compromises between these competing interests to ensure that the electorate, while never entirely satisfied, is satisfied enough that it will return the government to power.

So, on the one hand, in government we have consensus building. On the other hand, we have criticism—and criticism, I submit to you, is the principal function of the Opposition. Criticism will attempt to show that one group is being neglected while another group is favoured. It rarely involves compromise. The role of criticism shared by the Opposition is as old as democracy itself. If you go back to Aristotle's time, under Athenian rule, the essence of self-government was that citizens in their turn were both the rulers and the ruled. Government could alternate among different groups of citizens and the minority would seek to persuade the majority of its point of view by peaceful, political means.

A hallowed principle of our democratic tradition is that the minority accepts the right of the majority to make decisions, provided that there is reciprocal respect for the minority's right to dissent and I think that that's critical. And it's also important for us to maintain the distinction between parliamentary representative democracy and the sort of direct plebiscite or referendum appeal "to the people," which history shows can, in fact, be made incompatible with democracy, incompatible with the most authoritarian forms of government.

A vigorous Opposition in Parliament can be the chief bulwark against the establishment of a bureaucratic empire. The people do speak through Her Majesty's Loyal Opposition, as well as the government, through backbenchers as well as cabinet ministers. Just as members of the Senate, that other place, are expected to act as a chamber of sober second thought, so too members of the Opposition in the lower house are called upon to act as a break on government haste and to see that diverse and opposing and often contradictory points of view have a chance to be aired and defended.

If you look back on some of the great parliamentarians of our century, you look at John Diefenbaker and here's what he had to say about Opposition about which he knew more than a little: "If Parliament is to be preserved as a living institution, His Majesty's Loyal Opposition must fearlessly perform its functions. When it properly discharges them, the preservation of our freedom is assured. A reading of history proves that freedom always dies when criticism ends." His own alter ego and his competition during those years of parliamentary democracy, Lester Pearson, also understood full well the role of Opposition and he commented at one point about how he looked upon Mr. Diefenbaker and his stalwarts on the Opposition side of the House. "In national politics," he said in a speech to The Canadian Club on January 27th, 1959, "during the years when I was in government, I watched the Opposition perform their duty vigorously and industriously, with courage and determination." And this speaking about John Diefenbaker, "They rightly insisted on their right to oppose, attack and criticize, to engage in that cut and thrust of debate so often and strongly recommended by those concerned with the vigour and health of Parliament and the health of democracy. I cannot forebear to add, however, that the application of this procedure has in the past occasionally been resented by those who are cut and thrust at."

Both men, Diefenbaker and Pearson, obviously recognized the legitimacy of adversarial politics and of the right of the Opposition to use whatever legal means at its disposal to hold the government accountable.

In considering the role of the Opposition in our country, we must also look at the operation of party discipline. The fact that government members invariably are compelled to vote with the government, to vote on a party line basis, puts the onus of responsible government squarely on the shoulders of the Opposition. In a majority government situation, it is true that the Opposition will never be able to outvote the government on any policy proposal and, therefore, we must content ourselves with using other techniques to get our message across—techniques like debate and question period. Again, our basic parliamentary tradition has held that the very nature of debate should be adversarial, should be confrontational—a principle which is given substance by the structure of the chamber itself and the fact that in order for the debate to begin, the mace must be presented into the House.

The chamber is rectangular, it isn't round, it isn't sitting at a round table where you have nuances and shades of opinion. The setup of the rectangle, while in fact a historical accident, has been perpetuated by choice. Its most eloquent defence was actually offered by Winston Churchill at a time when the

British people were thinking of changing their parliament, when they were rebuilding following the damage done to the British House during the war. And according to Churchill, when discussion came forward about perhaps having a semicircular table, a semicircular chamber, Churchill said, "Its shape should be oblong and not semicircular." Here is a very potent factor in our political life. The semicircular assembly, just like the republican role of government which appeals to political theorists, enables every individual or every group to move around the centre, adopting various shades of pink as the weather changes.

I am a convinced supporter of the party system, in preference to the group system. The party system is very much favoured by the oblong form of the chamber. It is easy for an individual to move through those insensible gradations from left to right, but the act of crossing the floor is one which requires serious consideration. As Mr. Churchill said, "I am well informed on this matter, for I have accomplished that difficult process not only once, but twice. Logic is a poor guide compared with custom." So Winston Churchill believed that the rectangular chamber, in fact, lent itself to a parliamentary debate where you had the government and you had the Opposition and never the twain shall meet.

In a sense, in a parliamentary system, there are only two sides of every issue and a member is either for or against a motion. Shades of opinion—and you can talk about any issue, whether it be the trade issue, whether it be the sale of Air Canada—shades of opinion are forced into these two aggregations and there is no room for single-issue politics. The parties and the members win or lose on the basis of their total choices, policies and decisions.

You know, we've had much talk in the last few years about how we should move toward an American system and how it would be better if individual members were allowed to make a choice and vote on the basis of individual issues. Well, I would submit to you that the parliamentary system which holds cabinet accountable and which holds each political party accountable, in fact has led to the development of a democracy where we are not held hostage to single-interest groups.

There are many people in this room who may not agree with the Liberal Party on every single issue, but in the overall balance of things, when election time comes, you must make a judgment on the basis of the overall thrust of party policies rather than picking a record of each member, examining their voting patterns and determining your vote accordingly.

So, I don't believe that a move to the American system or the so-called republicanization of the system would in any way assist the development of parliamentary democracy in Canada. Our own Parliament, looking fondly to the south, in fact, recently passed a series of parliamentary reforms. We often hear in the newspapers about the so-called "freedom" that is now afforded individual members. Well, to the political theoreticians, it sounds terrific. I want to tell you that in practical application, it's a lot of bunk. In fact, it's a sham and you only have to look at the record of political parties on the so-called private members' bills to examine that, in fact, the political parties are still voting on the basis of block patterns and there is still a party discipline attached even to a so-called private member's bill.

Bill C204 is the bill that was introduced, in fact, by a member of the New Democratic Party, and I sat on the committee that dealt with that bill. It dealt with regulations regarding smoking. Well, I want to tell you that it wasn't the great ideal of all of the members standing together and developing a private member's bill which will respond to the exigencies of the day. It was, in fact, party line, party whip, even to the point where when certain amendments were introduced, they were vetoed by various government departments before they were actually ever approved by the majority of Conservatives on the committee.

So, it's nice in theory to talk about parliamentary reform and the freedom of the individual member, but in a parliamentary democracy, the discipline of parties must prevail and the discipline of parties has made the strength of our democratic process in Canada far more palatable than what we've seen in the United States. The bottom line is still the cabinet and the bottom line is that the cabinet and the government must be held accountable for the decisions they make. But just as in any process, when the cabinet gets together, individuals within that cabinet may vehemently disagree on an issue. I would suggest to you that Mr. Wilson probably did not agree when in his wisdom the Prime Minister decided that he would name Montreal and Vancouver financial centres and somehow ignore the largest, most basic financial centre in the country of Canada. That was obviously a political decision, which I'm sure Mr. Wilson must have fought tooth and nail, but the fact is once the decision is made, he's part of that cabinet team—he must go out and defend that decision and defend it even in his own home town, although he knows it was politically motivated and had no sense or basis in terms of the financial community. That is the essence of democracy and the parties, win, lose, or draw, are represented to the people as a group—as a homogeneous group with perhaps shades of opinion, nuances, differences. I don't think anybody would believe that among all three parties there is a single view on the question of abortion. It is an extremely delicate issue and you will see people who are emotional and vehement on both sides of that very strong issue. I don't think you see a homogeneous view on the question of free trade. In all three parties, there are certainly nuances of position on the issue of Meech Lake. But the fact is, in a parliamentary democracy when the government comes forward with a program and when the cabinet comes forward with a program, the party members and the party representatives in Parliament must either support or oppose in the grand parliamentary traditions that were established by Winston Churchill.

I think some people, probably in this audience, might argue that Opposition is too aggressive. Aggressive Opposition should stand aside and be replaced by a better parliamentary practice, decorum perhaps being more important than substance. Even the greatest parliamentarian of our century, Churchill himself, was not above setting aside parliamentary niceties to reap advantage and to get his political point across. Listen to his description of labourite Prime Minister Ramsay MacDonald in 1931. Mr. Churchill said, "I remember when I was a child, being to the celebrated Barnum Circus which contained an exhibition of freaks and monstrosities, but the exhibit on the program which I most desired to see was one which was described as the boneless wonder. My parents judged that the spectacle would be too revolting and demoralizing for my youthful eyes and I have waited 50 years to see the boneless wonder sitting on the Treasury bench." When Churchill first crossed the floor in 1904 and joined the Liberals, he lost no time in ripping Prime Minister Balfour to shreds for not setting a date for general elections: "To continue an office for a few more weeks and months, there is no principle which the government is not prepared to betray and no quantity of dust and filth they are not prepared to eat." Churchill himself was, in fact, a thorn in the side of his own party. During his early days with the Conservatives, he quickly became a focus for the doubts and discontents of the more independent and adventurous spirits of the rank and file. He gathered round him a small parliamentary group nicknamed The Hooligans (*plus ça change . . .*). This group provided lively and effective irritants and succeeded in making themselves thoroughly unpopular with the faithful and the front bench. Churchill was also the target of many an assault. When he was Chancellor of the Exchequer, he once for fun—I guess he probably did this on his nights off when he wasn't working in the House—he counted up with great relish the epithets tossed his way. The word robbery or robbed—speaking of Mr. Churchill—was used 67 times. Confiscation, 10. Plunder, 10. Steal, 3. He was called a marauder, a cat burglar and the artful dodger, and, to quote him, he says at one point, "the more exuberant members of the party opposite have for some years, at elections at any rate, been accustomed to salute me by the expression 'murderer' and from that point of view, 'robber' is sort of a promotion. It shows I am making some headway in their esteem."

Certainly, the historical roots of the role of Opposition have been well founded in the parliamentary system and I think if you look back to our role, in 1984, when as the Liberal Opposition a few 40 people were gathered in Parliament, there were those among us in the Liberal Party who, in fact, argued that our role of Opposition should be less than vocal, should be less than forceful and there was a small group among us extremely concerned by the statements and the threat of the third party that had already announced that it, in fact, was going to be the official Opposition. We developed strategy—a strategy where we set out in an extremely aggressive fashion to point out in a critical way the shortcomings of the government and to, in fact, embark on what at the time we characterized as "a search and destroy mission." And I must tell you that took some doing, because there were those among us, rejected and repudiated as we were by the voters in 1984, who said, "Well, we better sit tight, be quiet for a year or two. People don't want to hear from the Liberal Party." But it was our fear and our belief that if we sat tight for '84 and '85 and into '86, that we would, in fact, become redundant and would be replaced by another party that was waiting in the wings. So, we had an aggressive and forceful Opposition. We have now reached the stage in our mandate where our job goes beyond simple opposition, because people are saying, "Fine. You've outlined the difficulties and the problems of the government. What would you see as the solution? What is your vision of Canada? How do you differ from the government in the context of the political systems of this country?"

And I'm not here to give you a long political speech. I'm sure that you will get those from other politicians who will address you from time to time. I am here to tell you that in the context of the last 3½ years, there has emerged, in fact, an acute difference in the perception of our country between the Liberal Party and the current government and that is that as a party, we have always believed not only in the strong mix of the public in the private sector, but that there is a strong role for government to play in holding this country together no matter what the issue. Back in 1985, the federal government said it no longer had a role for housing, federal housing, social housing in this country. It gave that dossier off to the provinces in the area of social housing because it said, "You should deliver the service," and when you have thousands of people in major cities across this country who are homeless, it's time that there is a national policy for housing. It's unfortunate that the Conservatives have seen their role as simply giving that responsibility to the provinces. It started with social housing, when the federal government said it no longer wanted to play a role in the development of a national housing policy. It has continued. It has continued, in fact, with a number of legislative agendas which have diminished the role of a strong central government and have, in fact, threatened the very sovereignty of our country.

I don't want to spend a lot of time talking about the trade deal, but the federal government says it's simply a business deal. It's nothing more than two parties getting together and signing a contract and it refers quite often to the European Community and how well that has worked in Europe. Well, I want to tell you, ladies and gentlemen, I just came back from Europe and I had a chance to examine the European Community and what began as an economic agreement is now, in fact, moving in the direction of social policy where at this point in time, the European Economic Community establishes a uniform retirement rate for all its citizens and all its countries. It determines what laws are applicable in the area of women's rights. It says that if one country is operating in one fashion and another country is operating in another, that these laws must be brought together.

So, where economic policy begins, social policy flows from there and I've been one of those who believed that, as a country, we love our neighbour. We're not anti-American, but we believe that we have developed infrastructure which is a better reflection of helping the little person make it, and at the same time giving the individual an opportunity to compete—a better mix of the public in the private sector. I don't, as a woman, want to be put in a situation where I can lose my job simply because I've been pregnant and in the United States, there are many states in the nation which do not even offer simple job protection to women who are pregnant. There is no overall benefit of pregnancy leave for women in the United States. Is that the kind of social road that we want Canada to follow?

So, I'm asking you to look at whether this is simply an economic deal or whether it will lead to the integration and, in fact, absorption of our great country by our neighbour to the south. I have those concerns. I have those fears. Our party has those fears. And when we've looked at the deal—when you start from a bad foundation, you don't rebuild using a poor foundation. If it's a poor foundation, you replace the foundation and you begin from scratch and that's the proposition that we're making to the people of Canada in respect of this particular trade deal.

There is a different view of Canada by the two political parties that both have a chance of returning to government and, I think, as a Liberal who has fought long and hard for social programs for the kind of infrastructure that says yes; let's provide opportunity; let's provide incentive. As we've seen in the first mandate of the majority Liberal government in Ontario, there is a place for the entrepreneur. There is a place for the business person. But there is also a place for the kind of caring community that we have established in Canada and I see my role in Opposition as being an opportunity to highlight on a day-to-day basis where the government is not holding true to principles of liberalism, where the government is not standing up for the little person, where the government is palming off responsibility for a national housing program onto the provinces. That's fine for Ontario. We live in an extremely rich province. We can afford to deliver housing services that are going to meet the needs of our citizens, but what happens if you're in Newfoundland.

Newfoundland should never by rights have existed, but it existed because a former prime minister had a dream of bringing this country together, east and west. We, in fact, defied all the logic. We should be trading north and south. We defied all the logic and we built a country on a dream and we built a country on a parliamentary democracy which in and of itself is completely different from the kind of republican congressional system that has been established in the United States. I don't see a move to the congressional system as being good for Parliament. I don't see a move to the economic union as being good for Canada and I would submit to you that the only way we're going to be able to get off this train is by making a change in the next election and I'd like to just launch one last challenge to you.

There are many people in this room who have been involved in the political process with the political party of their choice, but who have not stood for office. And you may be sitting down there with a six-figure salary and very happy home life. You don't want to make the sacrifice. Well, just as I have a right to criticize as a member of Her Majesty's Loyal Opposition, so I would submit to you to really bring your criticism of government policy or Opposition policy to fruition, you should stand for public office and take up the challenge yourselves because democracy is only the sum of the people who choose to take part and if you stand on the sidelines, happy and content in your successful business and not wanting to rock the boat or make the kinds of family sacrifices required by people in all political parties, then you deserve the government you get. But if you believe that change is necessary and changes wrought by criticism from Her Majesty's Loyal Opposition and by emergence of community leaders who stand for public office, then I urge you, there's an election coming in short order. Get up from your warm seat, stand up from the sidelines, stop being a spectator, get involved, run for office, and then the kind of views that you represent will truly become part of the cultural and political fabric of our country. Otherwise, if you're merely standing on the sidelines, then you deserve the government that you get. Thank you very much.

The appreciation of the audience was expressed by Edward B. Jolliffe, a Past President of The Club.

Stephen Jarislowsky

President, Jarislowsky, Fraser & Co. Ltd.

SHAREHOLDER DEMOCRACY

April 28, 1988

Chairman: Ronald Goodall, President

Ronald Goodall

It is reported in the press that our speaker has the IQ of a genius. Perhaps his future was forecast by Sir James Fitzjames Stephen in his book *Liberty, Equality, Fraternity* published in 1873 with these words: "The way in which a man of genius rules is by persuading an efficient minority to coerce an indifferent and self-indulgent majority."

Our speaker has represented the minority: he was the leader of the shareholders' action committee of Canadian Tire; the leader of 15 million votes in opposition to an apparent move by Seagram's which could have resulted in reducing common shares to nonvoting status; he was the representative of Hudson's Bay Oil and Gas shareholders insisting on payment in cash rather than shares by purchaser Dome Petroleum.

The "self-indulgent majority" has been seen by our speaker as companies whose top executives and controlling shareholders seek to enrich themselves at the expense of minority shareholders. He is quoted as saying, "I don't mind them making an honest profit. I just don't want them to be pigs."

He argues that a good investee company possesses integrity and honesty in management. I must agree. He sympathizes obviously with W.S. Gilbert in *Iolanthe:*

The shares are a penny
And ever so many
Are taken by Rothschild and Baring,
And just as a few are allotted to you,
You awake with a shudder despairing.

Stephen Jarislowsky was born in Berlin and attended schools in Holland, France, and North Carolina. He is a graduate in mechanical engineering from Cornell University, New York, in Far Eastern studies from the University of Chicago and obtained a master's degree in business from Harvard. Mr. Jarislowsky saw military service in the U.S. army in postwar Japan as a counterintelligence officer.

His business career began with Alcan Aluminum but after three years he left and ran an art-book publishing house based in New York. His next move was to form his own firm, Jarislowsky, Fraser & Company, in Montreal. During these early years, he was an entrepreneur: one of the founders of a metal fabricating firm, a laundry company, a mutual fund, an auctioneering firm, and an investment publication. He knows how to run a business.

He is fluent in English, French, German and Japanese. An ability with language is, of course, necessary to unravel the mysteries of the prospectus and the annual report. Thank heaven we chartered accountants write with such clarity and simplicity.

Mr. Jarislowsky was ranked top money manager in 1986 and described as the most powerful money manager in 1987. He manages $9 billion, one-eighth of all trustee pension plans in Canada. He is a director of a number of organizations including the Swiss Bank Corporation, InterCity Paper, Fraser Brothers, Quebec Pension Board, the Montreal Museum of Fine Arts and the C.D. Howe Institute. He is a collector of cacti and art.

He is married to Gail with two sons and two daughters.

Ladies and gentlemen, please welcome Stephen Jarislowsky who will address us today on "Shareholder Democracy."

Stephen Jarislowsky

My friend Nona Macdonald prevailed on me for a long time now to address your members. Nona and I go back a long way, but my shyness and hesitation were real. The name of The Club alone is intimidating to an immigrant like myself. I had a similar emotion when I first addressed The Canadian Club.

My speech deals essentially with shareholder democracy and the concept of fairness. In the days of the British Empire, these didn't exist to a large extent, as the board rooms were filled by the elite, who rarely felt that the hoi polloi needed more than a pat on the back. The shareholder was essentially a sucker who wanted to gamble, but in the long run supplied cheap money and never had much, if any, say, nor ever got more than some crumbs. Financial reports were very sketchy as they still are in many parts of the world today, and the regulatory authorities, if anything, were acquiescent to the board room elite.

Things have changed, but not enough. The ethics of the business community are slowly improving and the pooh-bahs are rarely found in board rooms any more. The ethics of the new breed of paper shufflers, however, are not particularly good, and I have also noticed that the *fils à papa* once dad is gone don't lack the quality of greed, even though their inheritance was rarely re-earned by them—just manna from heaven or the right place under the apple tree.

Where do I come from? Essentially, I am an institutional investor! That means I invest the funds of other people, in a rather conservative fashion. Increasingly, these funds are pension fund monies from the private and public sectors. They are fiduciary funds and my clients, the pension fund boards, are trustees for these funds, corporate and individually owned. By that I mean they are either, and still largely defined, benefit plans or, growingly, money purchase funds. The former are pension plans where the benefits are guaranteed (hence defined) by the company; while in the latter, the values at the time of retirement, and even all along the way, accrue in full to the contributors, normally without a minimum guarantee. My job is to act as agent of the trustees and as such to make sure that the funds are safely invested to achieve the best possible returns within the confines of fiduciary stewardship. In effect, I invest them in a prudent way —the prudent man's rule.

I should not gamble with the funds on the one hand. On the other, I should not just buy bonds, but should seek out intelligent growth opportunities with good and honest managements. Clearly, if the majority owners, the boards or management of the company I invest in do not look after my clients as shareholders, but only after themselves—whether legally or illegally—I do not accomplish what I set out to do. If the majority shareholder favours himself at the expense of other shareholders (my clients), these latter lose. If management does the same, these shareholders lose, etc. A Southam-Torstar deal; a Canadian Tire; a Seagram attempt to bring in nonvoting shares; a predatory takeover of a subsidiary (Dominion Glass, Keeprite, etc.) are all at the expense of my clients and diminish my performance.

I look for shareholder democracy, where all shares are voting equally; where directors represent all shareholders alike and act as fiduciaries for all; where managements get well rewarded for work truly well done; where management does not reward itself unconsciously and where control shareholders do not invite others in as shareholders unless they expect to treat them fairly. Finally, I look for laws which assure that excesses and/or dishonesty are easily prosecuted and severely punished. While this platonic ideal is what I look for, I do not necessarily find it. The result is that I have a choice—to allow myself to be cheated and robbed or to fight.

In the past, institutional investors usually acquiesced to being cheated and robbed. You voted with your feet. You sold your shares or you chalked it up to experience. Many investors still retain that attitude. Many, if not most of my competitors, do not like to be identified opposing control shareholders, boards or management. They fear to lose business thereby or fear to be ostracized in their business circles and clubs.

For many years now, ever since the British Petroleum-Supertest contest, I have taken an aggressive stance when it looked that my clients once again would be victimized. I do it for good business reasons—if my clients have better performance I get more clients—that in fact is what I'm paid for. I'm paid a percentage of capital so that my clients can get a higher percentage of gain and so can have a good return on what they pay me. The better my performance, the happier my clients and the more they recommend me to others. So my policy is "enlightened selfishness." I'm not Robin Hood, though at times I try to sound like him. I'm an impostor who fights the battles to get more business.

There is another reason too. When we pick a stock, we choose it based on lengthy research into facts about the industry, the company and its management. If we are right in our assessment, the stocks we buy should do well. If they do not, then presumably our analysis was poor. However, the best-laid plans by mice and men are no good if we deal with an unethical board or a grasping control shareholder. We have little control over that till after the event. When we distrust the principals, we avoid the stock, but who would cast stones at the Southam or Canadian Tire companies? They were always the height of respectability! I hate to do this security analysis and be proven right only to be diddled. It sets off a nervous reaction of outrage in me on which I usually act. If a correction cannot be obtained in a friendly manner, we will pursue the matter in law.

The law in Canada though is not of much help. The duties and obligations of directors are not well spelled out and as such Ontario law doesn't insist that, like in the U.S., directors are necessarily fiduciaries acting alike for all shareholders. A court will not normally question the decision of a board as long as the board crossed all t's and dotted all i's. The fact that a board is acting strictly for management or the control block who appointed them does not bother a court, unless the board did not act within legal niceties. Outside directors are rarely that if they were appointed by other than the outside shareholders and professional advice from investment firms or such is usually reflective of who paid the fat fee. Advice usually follows what he who asks for it wants to hear, especially when accompanied by the fat cheque. We have learned that the hard way, but we are not despairing. We have made much progress. Still, we believe that the laws must be improved and that the process of using the law must be far more expeditious and far less costly. I'm not here to tell you horror stories.

We have made progress. Canadian Tire was a bench mark in getting the OSC/QSC to act for the minority shareholder. Using soft dollars to pay our legal bills also is an enormous help. Before that we paid 100 cent dollars after tax to fight our own company which used our money on a tax-deductible basis to fight us. The relations of the institutional investors with the OSC and QSC are indeed excellent. We work closely together and have built a solid relationship of mutual assistance where warranted. We want no special favours from the OSC and QSC, only the courage to act in unfair situations. They have demonstrated the same under Paul Guy and

Stanley Beck. We also want them to act to modify the laws in line with what I said above. We feel that, though slowly, here also there is motion in the right direction.

We have also made yards elsewhere. The director of the Canadian Corporations Act, Fred Sparling, is suing Southam/Torstar, asking the court a) to undo the transactions and b) to assess damages for the minority shareholder. This is a first, we welcome it.

We have also gotten together among institutional investors and now fight these actions jointly, no longer alone, and this is effective. In Canadian Tire the assets of the institutional investors working together totalled some $40 billion of clients' money. We have stopped many companies from introducing adverse acts ahead of the shareholder meeting, yet other companies have put into effect bylaws which far better protect minority shareholders than heretofore. We salute CP, Weldwood, Transalta Utilities and UAP for excellent examples in such transactions as non-arm's length deals and subordinated voting shares. We believe there will be ever more companies travelling this road as it creates investor confidence, not only in the specific companies but in our general markets. It reduces the work of the regulatory commissions. It reduces our work. We have proven to be formidable adversaries.

What do we want? Above all we want fairness and shareholder democracy. We do not like nonvoting or subordinated voting shares. We do not want to be the South African blacks of the stock markets!

We believe in pre-emptive rights for new issues or at least in pro rata preference in new issues for existing shareholders. We believe that all material non-arm's length transactions should be decided by the majority of the minority. We believe that directors must legally act as fiduciaries for all shareholders alike and must especially protect the weak—the minority shareholders. We believe that directors should be carefully chosen from people who are informed, ethical and who learn the business of which they are directors. They cannot be merely safe cronies of the majority shareholder or of management. We do not believe that management or the board can unilaterally oppose a takeover to save their own jobs. If a big fat bid is on the table, they cannot deny it to the shareholders. If anything their job should be to see whether there is not a yet fatter one available. They should not arrogate to themselves the decision of at what price to sell—that decision should rest with the shareholders. It is the board's job to assure good management. Normally, if that is the case, results will be good and stocks will sell high. Bargain-hunting raiders do not look for expensive companies; they normally look for cheap ones. These are some of the things we believe in.

As time goes by, institutional money will increase in size. The taxable individual has a hard time to save and to invest profitably today. Short-term money and bonds by and large earn nothing at 5 per cent inflation and 50 per cent tax. The new capital gains rates at 75 per cent next year tax inflation and are higher for long-term investors in real terms than the normal tax rates on short-term money which carries no risk. This may come as a surprise to you. Since V-day in 1972, the value of money has fallen to 30 cents from $1 in purchasing power. Thus a stock had to triple to stay even. Had it tripled say from $30 to $90 you would pay 75 per cent tax on $60 or at 37½ (75 per cent of 50 per cent) you would lose $22½ to tax while in reality there was no gain in purchasing power. The private individual's best investment today is his house as he pays no tax on the money he invests and also no capital gains tax when he sells. His other investments of value are his pension plan and his RRSP. But both of these are really not capital but deferred savings. They extinguish normally with him. It is clear that institutional money (RRSPs and pension plans) will grow fast as they are nontaxable while invested. As such, money managers will continue to represent an ever-larger share of the public stockholdings. This will add to our clout.

This also places a heavy responsibility on people such as myself. Who else will be able to represent the public shares effectively if not the big money managers? To date our assuming such responsibilities has brought no scandals, no scams, and little interference in the board room. We personally do not take directorships in public companies in which we invest as it would pose a conflict of interest. On the other hand we have been ill-served by many public boards. We are now starting, only starting, to recommend strong outside directors to boards when asked. I see more of that in the future, but as long as existing directors act for all shareholders alike, I do not believe that we will try to influence them. At Canadian Tire, we now name the A shareholder directors. I have been asked to suggest names for other companies and have a long list of fine citizens in all leading cities of Canada, if you want a new director.

What we want is fairness and shareholder democracy. What we still lack is simple, clear laws assuring us that we will automatically get fairness and shareholder democracy. In the meanwhile, as big boys we are learning to fight our battles as recent successes attest. I promise you that we will persevere and win as our cause is just.

The appreciation of the audience was expressed by Nona Macdonald, Past President of The Club.

Annual General Meeting

PRESIDENT'S REPORT

April 28, 1988

Chairman
Ronald Goodall, President

Ronald Goodall

Honoured guests, distinguished Past Presidents, members and friends of The Empire Club of Canada: Notice has been provided that our annual meeting is to be held on this date, and I have asked The Club Secretary, Willis Blair, to act as secretary for the meeting.

In accordance with Article VI, Subsection 2, of The Empire Club's constitution, I am pleased to report on the year's activities and present an interim report on our financial affairs.

The President's report has been printed and copies have been placed on each table for your review. In the interests of time, only a brief synopsis of this report will be given today.

I am pleased to submit the annual report of the President on the 1987-88 operations of The Empire Club of Canada.

Program. Consistent with the programs of other years, The Club was addressed by men and women representing international, national and provincial organizations and the various walks of life. I cannot identify highlights of the year's program as each meeting had a unique and different quality.

The fall session was dominated by the free trade discussions and the agreement between Canada and the United

States. Two key negotiators in the discussions, Clayton Yeutter and Simon Reisman, addressed joint meetings of The Club and the Canadian Club. Invitations to two provincial premiers, our own David Peterson and Saskatchewan's Grant Devine, resulted in the presentation of other views on these discussions.

The Minister of Finance made two presentations to joint meetings reflecting interest in matters fiscal: income tax reform and the 1988 budget.

International businessmen such as Frank Shrontz of the United States, Graham Day of the United Kingdom and John Elliott of Australia presented interesting views on the international business scene and Canada's role in it.

International affairs were addressed by Lord Carrington of NATO, Ambassador Rodionov of the U.S.S.R. and Barber Conable of the World Bank.

The Club heard the views of Quebec (Pierre Péladeau), Manitoba (John Fraser), and Alberta (Don Stacy). The world of finance lent us Richard Schmeelk, Charles Ellis, Michael Mackenzie and Stephen Jarislowsky.

The Club heard from leaders in the arts and architecture, education and the law, the media, the Olympics, politics and publishers. We looked to the past with Mike Filey, to the future with Maureen Farrow and Maclean Hunter and at ourselves with the Lieutenant-Governor at Christmas.

The Club was fortunate to have 38 speakers grace the head table, five of whom were women.

Membership. Membership has been maintained this year, with an overall total of 2,693 members compared to 2,825 in 1986-87. Categories of membership are as follows:

	1987-88	**1986-87**
Honorary Life Members	4	6
Life Members	215	223
Spousal	618	652
Regular	1,829	1,918
Student	27	26

A new members reception was held in February and new members tables were identified again at luncheons.

Attendance. A total of 34 meetings attracted 11,727 attendees (including 400 head table guests), representing a statistical average of 345 attendees per meeting.

Finance. For the last four years, membership fees have remained unchanged, $30 for regular membership, $40 for spousal membership, $15 for students and varying amounts depending on age for life membership.

Luncheon prices for members approximate the hotel charge for luncheon. An additional charge of $5 is levied on non-member luncheons.

I am pleased to report that, based on preliminary numbers as presented by our Treasurer, in the current year our revenue is expected to exceed expenses by approximately $12,000, bringing The Club's surplus to approximately $97,000. This excess of revenue is attributable to the 10 special events held this year.

The financial statements for the year ending April 30, 1988, will be presented to the Board of Directors. The audited financial statements will be published in the 1987-88 yearbook.

Empire Club Foundation. Col. Robert H. Hilborn deserves our gratitude once again for his efforts as the Foundation's president.

During the year, The Club set aside $10,000 as its contribution to The Empire Club Foundation for publication of the yearbook. In addition, net proceeds of approximately $9,000 were generated for the yearbook from the seventh annual Empire Club Foundation Spring Ball. The Foundation is responsible not only for the required fund raising to finance the costs but also for the editing and publishing of the annual Empire Club yearbook of speeches. Members and libraries across Canada and abroad receive copies of the yearbook free of charge. The yearbooks mirror Canadian history since 1903.

In Memoriam. It is with sadness that I must record the passing of two distinguished past presidents: The Hon. Alexander Stark, Q.C., 1960-61 and William M. Karn, 1976-77. Their contributions to this Club are well known. We shall miss both of them.

Appreciation. The task of President has been made manageable by the diligence and hard work of The Club's past presidents, directors, officers, volunteers and members. Their efforts are coordinated by our administrator, Anne Lato, and put into action by the staff of the Royal York Hotel. The listing of committees and their chairmen, which I have attached, demonstrates the myriad of activities, some as obvious as reception, some not so obvious such as attendance. These activities are necessary to guide The Club from year to year in its role as a foremost public affairs forum and as the only forum of record in Canada.

I am indebted to you all.

I must thank my wife, Grace, who not only acted as my part-time secretary typing all my introductions and speaker correspondence but also was the sounding board for my introductions! Her reward was the many friends she made this year from among The Club membership.

Finally, I must thank you again for having given me the privilege of serving you as your President. It was an experience that I enjoyed and that I shall cherish always.

Respectfully submitted,

Ronald Goodall, F.C.A.
President

Ronald Goodall moved acceptance of the annual report, seconded by Harry Seymour, then called upon the Immediate Past President and

Chairman of the Nominating Committee, Nona Macdonald, for the report of the committee.

Nona Macdonald

Mr. President, distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure, as Chairman of the Nominating Committee, to report on the work of that committee which was constituted, in accordance with Article III of The Club's constitution, of these members:

From the Board of Directors:
- Wendy Cecil-Cockwell
- John D. Herrick
- Montague Larkin
- Harry Seymour
- Tony van Straubenzee

From the membership at large:
- Craig Ivory
- Maj.-Gen. Bruce J. Legge, C.M.M., K.St.J., E.D., C.D., Q.C.
- John A. MacNaughton
- The Hon. Mr. Justice Joseph H. Potts, C.D.

Our President, Ronald Goodall, served on the committee in an ex-officio capacity.

The Nominating Committee is pleased and privileged to report that the honorary officers of The Club for the 1988-89 season will be:

Honorary President
  Her Excellency the Rt. Hon. Jeanne Sauvé, P.C., C.C., C.M.M., C.D., Governor General of Canada
Honorary Vice-President
  The Hon. Lincoln M. Alexander, P.C., Q.C., K.St.J., B.A., Lieutenant-Governor of Ontario
Honorary Chairman
  His Excellency the Rt. Hon. Roland Michener, P.C., C.C., C.M.M., C.D., Q.C.

Honorary Chaplain
The Very Rev. Ernest M. Howse, S.T.M., Ph.D., D.D., Litt.D.
Honorary Associate Chaplain
The Rev. Harold F. Roberts, C.D., B.A., M.Div., A.deC.
Honorary Secretary
Dennis Flynn, Chairman, Metropolitan Toronto
Honorary Treasurer
Hartland M. MacDougall, C.M., Chairman of the Board, Royal Trustco Limited
Honorary Solicitor
The Hon. Wm. G. Davis, P.C., Q.C.
Honorary Assistant Secretary
W. Malcolm McIntyre
Archivist
Leland H. Ausman

The Nominating Committee is pleased to report that Willis L. Blair will continue the position of Secretary and that Diana Chant has agreed to continue as The Club's Treasurer.

According to our constitution, "the Board of Directors shall consist of forty members, including at least four Past Presidents of The Empire Club, one of whom shall be the Immediate Past President and the three others shall be the three Past Presidents immediately preceding the Immediate Past President."

Therefore, in recognition of this constitutional requirement, the committee nominates: the Immediate Past President, Ronald Goodall, and also Nona Macdonald, Harry Seymour and Catherine Charlton. The Nominating Committee approves the creation of a new category of officers—that of Honorary Director—a position of distinction offered to Directors who have served with special loyalty and long-time dedication to The Empire Club of Canada and to The Empire Club Foundation. Honorary Directors will have all the privileges of other Honorary Officers, and will relinquish their directorship and voting right. Two individuals have been recommended to receive this honour:

Setrak Adourian
Leslie Parkinson

May I take this opportunity to congratulate both of them.

Furthermore, the Nominating Committee recommends unanimously that the following members of the Board of Directors continue to serve in the coming year:

James Breithaupt, Q.C.
John A. Campion
Dr. Clarence B. Crummey
The Hon. Barnett J. Danson, P.C.
A. Carlyle Dunbar
E. John Freyseng, Q.C.
Blake C. Goldring
Chas. C. (Bud) Hoffman
Frederic L.R. Jackman
The Hon. Daniel A. Lang, Q.C.
Montague Larkin
David A. Lewis
Marcia McClung
Dr. James A. Parish
Paul Rouleau
Angus Scott
Donna Scott
Margaret Scrivener
Gordon G. Steele
Henry Stewart
Col. Garry S. Thomson
Robert C. Watt

I would like to take this opportunity to pay tribute to those Directors who have served so devotedly on our Board, but who we regret to announce will be retiring as Directors:

Wendy Cecil-Cockwell
Jean Casselman-Wadds
Ross DeGeer

Peter Kirkham, Ph.D.
James Laidlaw
John MacBeth, Q.C.
Lindsay Shaddy

Each of you has contributed something very special to this prestigious public affairs forum. We hope you will continue your bonding to The Club and you know you have a warm welcome at all our events.

Your Nominating Committee is pleased to nominate unanimously the following new members for the Board of Directors:

John F. Bankes
Vice-President, First Boston Canada Ltd.

Graham D. (Sam) Blyth
President, Blyth & Company

Mary R. Byers
Author and Historian

Bart J. Mindszenthy
Executive Vice-President, The Beloff Group Inc.

Maureen Sabia, Ll.B., M.B.A.
Lawyer

Larry Stout
Partner, Fraser Kelly CorpWorld Group Inc.

William G. Whittaker, Q.C.
Barrister and Solicitor

Robert L. Brooks
Executive Vice-President, The Bank of Nova Scotia

In addition to the above-mentioned nominees, your committee also recommends the election of the following three persons who will be proposed to the Board of Directors for appointment to the posts of Vice-President:

1st Vice-President
John D. Herrick

2nd Vice-President
J.A. William Whiteacre, M.M., C.D., Q.C.

3rd Vice-President
Michael A. Meighen, Q.C.

Finally, your committee is pleased to nominate for the Presidency of The Empire Club of Canada for its 1988-89 season, its 85th year, Anthony Allen van Straubenzee.

Anthony Allen van Straubenzee, a management consultant and President of van Straubenzee Consulting Corporation, has been an active and involved Director of The Club, and brings a wealth of experience and management acumen to the position of President.

After completing his education at Trinity College School, the University of Alberta and the University of Toronto, he became an executive in administration and personnel for prominent Canadian firms, among them IBM, A.C. Nielsen, A.E. Ames, Currie, Coopers & Lybrand. In 1981, he established his own firm, specializing in management training and executive search.

Mr. van Straubenzee is a Past President of the Personnel Association of Toronto and a former member of the American Management Association. He has been a Warden of Christ Church Deer Park Anglican Church and a Governor of Trinity College School. Currently, he is a Governor of Bishop Strachan School and is an active volunteer with the Canadian Opera Company.

His wife, Mary, is the daughter of the late Archbishop H. Clark, former Anglican Primate of Canada. They and their three daughters live in Toronto.

Mr. van Straubenzee, for a man who is an expert in executive search for others, I take great pleasure in reversing the process today by announcing that our executive search determined a promotion for you: from Club Director to Club President-elect!

Ladies and gentlemen, I am honoured to place Tony van Straubenzee's name in nomination for the presidency of The Empire Club for 1988-89. Your Nominating Committee is confident that he will provide the able leadership that has been characteristic of The Club since its founding.

Mr. President, this concludes the report of the Nominating Committee. I move this report be accepted. Seconded by Dr. Clarence Crummey. Carlyle Dunbar moved that nominations be closed. Gordon Steele seconded the motion.

The President then asked the Secretary, Willis Blair, to cast a single ballot in favour of those persons named in the report of the Nominating Committee, in accordance with Article III-3 of the Constitution of The Club. The President declared the members properly elected as Directors of The Empire Club of Canada for 1988-89, The Club's 85th year. The President then congratulated the President-elect, Tony van Straubenzee, passed to him the chain of office, and invited him to take the chair.

Tony van Straubenzee

If some of you are just a little surprised to see me standing here today, let me tell you that I am even more shocked. The fact is, I am, as they say, a dark horse and I have promised Nona Macdonald that I will try to act the part of the whole horse and not the part that Harry Seymour calls me. I mention those two Past Presidents because they are entirely responsible for my being here today and if I do not perform according to your standard, please get in touch with them.

I now know what it feels like to be in the fourth row of the chorus line and be asked to take over the leading role. The man who was supposed to be standing here today was unable, due to a sudden change in his responsibilities, to take up the mantle. So you are stuck with me. But don't panic because I am surrounded by Directors and Past Presidents who are not shy about giving advice.

Catherine Charlton, the distinguished first lady Past President has written four volumes on the role of the President and my exam is this weekend.

Maj.-Gen. Bruce Legge told me to look and act like a president. Col. Bob Hilborn suggested there should be a lunch at my expense once a week for past presidents to review my progress. Reg Stackhouse told me to be more conservative. And John Campion, one of our Directors, told me that I should be more liberal. Hal Jackman wants cigars brought back for after-luncheon speeches. Angus Scott taught me English and asked me not to embarrass him. Brig.-Gen. Lewis said to listen to everyone for the first month and then ignore all their advice. Doug Derry roared with laughter when he heard of my appointment and then three days later caught me in a bookstore in the reference section browsing through a book on how to make a speech.

I asked my three daughters and my wife to each find me a book which would be relevant to this task. My eldest daughter, Anna, gave me a book on how to lose 10 pounds. My second daughter, Pamela, didn't know The Empire Club and later phoned Anna to ask, "How did Dad ever get involved with the Imperial Order of the Daughters of the Empire? Did Granny get him into it?" She then gave me a book on how to keep speeches short—one that I obviously have not read yet. My third daughter, Angela, gave me a book called *Rusting Out, Burning Out and Bowing Out* and I haven't even started the job. And my wife, Mary, gave me a prayer book and said, "This time—use it."

Ron Goodall obviously needed none of this advice. He has had a wonderful year and I congratulate him on it and thank him on your behalf. A quiet, but distinct, contribution has been made here by his wife, Grace, and I would like to pay tribute to her with this gift.

There are three reasons why I have accepted this honour. Firstly, the people who volunteer to work for this Club are distinguished Canadians in their own right—many leaders in their fields. We can boast that we have more Order of Canada recipients on the board than almost any other board of its kind. Our members are spilling over with ideas and up-to-dateness.

Secondly, we are on the watch for men and women who have by their actions proven worthy of being presented to you. Our yearbooks will record for all time the inestimable benefit of their contribution from whatever field of knowledge they may represent. And that will be an instrument of teaching for so many students. But what I feel is our chief benefit is the opportunity to see these men and women live, catch their spirit, understand their pride, and share with them their accomplishments.

Thirdly, this is an organization that not only keeps its finger on the pulse, it refuses to throw out some of the important standards and traditions that often disappear in a permissive society. Oh, we get kidded about it sometimes, some call us stodgy or passé, but we don't agree. We believe in our traditions, our heritage and in keeping certain formalities sacrosanct. And we will continue to thank the Lord and ask for his divine guidance, especially under this new President. We will toast our Queen with chests swelled with pride and we'll sing our national anthem with great gusto and gratitude for the privilege of living in this wonderful country.

And finally, lest you think we are too serious, let me say that we know how to have fun and let our hair down and we are not going to sacrifice that for anything.

So I am deeply touched to be called upon, under any circumstances, to be your President and I will see that you are well served in this coming year.

THE SEVENTH ANNUAL SPRING BALL

April 22, 1988 **The Four Seasons Hotel, Yorkville**

Presented by The Empire Club of Canada and The Empire Club Foundation under the distinguished patronage of The Rt. Hon. Roland Michener, P.C., C.C., C.M.M., C.D., Q.C., Honorary Chairman of The Empire Club of Canada.

Program

Welcome
Ronald Goodall
President, The Empire Club of Canada

Grace
Brig.-Gen. Stephen F. Andrunyk

Toast
The Empire Club of Canada
The Empire Club Foundation
Catherine Charlton

Response
Maj.-Gen. Bruce J. Legge

Loyal Toast
The Rt. Hon. Roland Michener

Dinner

Dancing
Frank Bogart and His Orchestra

National Anthem

Appreciation

Crush Canada Inc. - Mixes
Lloyds Bank Canada - Program
Michel Reichart Agencies Inc. and
French Trade Commission - Wines & Liqueurs
New Zealand Lamb Company Limited
The Canadian Opera Company and
Wendy Cecil-Cockwell - Decor

Spring Ball Committee

Chairman
Wendy Cecil-Cockwell

Diana Chant
Clarence Crummey
Blake Goldring
Charles Hoffman
Montague Larkin
David Lewis
Nona Macdonald
Hartland MacDougall
Dennis Madden
Marcia McClung
and
Ronald Goodall
President
Empire Club 1987-88

Attendance was 205 people this year with proceeds going to The Empire Club Foundation.

MEMBERSHIP 1987-1988

Life Members

N. John Adams
Setrak Adourian
J.D. (Douglas) Alexander
John P. Alexander
William N. Allan
Dr. Blandford M.E. Allan
Graham H. Ambrose
Donald S. Anderson
B.Gen. & Mrs. S.F. Andrunyk
Leland H. Ausman
Ruby P. Avison

John Bassett
Mr. & Mrs. Ian S. Baxter
S.E. Beare
D.S. Beatty
M.E. Louise Beck
Everton R. Belyea
Ferne Bennett
Dr. R.C. Bennett
Douglas W. Best
Bruce Birrell
Willis L. Blair
Norman Borins
R.L. Broad
F.B. Brooks-Hill
Arthur E. Brown

W. Allan Campbell
Ernest P. Carr
Charles Carter
Sir Arthur R.T. Chetwynd
& Lady Chetwynd
Samuel Ciglen
James L. Clare
Walter W. Comber
Eleanor Cook
Geo. A. Corey
Benedict G.R. Cotterill
John A.D. Craig
Dr. H.V. Cranfield
Nola Susan Crewe
Dr. & Mrs. C.B. Crummey
Mrs. Matthew Currie

Charles O. Dalton
George C. Damiani, Q.C.
Douglas A.C. Davis
Elvio Del Zotto
Mr. & Mrs. D.L. Derry
Col. R.G. Douglas
Jessie G. Drysdale
A.A. Duncanson
E.B. Dungey
Mr. & Mrs. E.A. Duvernet

Joseph L. Etherington
Frederick A. Evis, Q.C.

David J. Fieldhouse
A.E. Fitzpatrick
Frank E. Forsdike
Federico Friedberg
Col. C.S. Frost, Jr., Q.C.
Hilliard I. Funston

Richard R.C. Geary
George Raymond Gibson
David R. Gillelan
John W. Graham, Q.C.
Kenneth G. Graham
J. Rennie Graham
Wayne Scarisbrick Gray
Ian Griffin
John W. Griffin
Robert Glenn Groom

B. Halstead
E.H.P. Hamilton
George S. Hanson
George M. Hargraft
Paul T. Hellyer
Roland E. Henderson, Q.C.
R.I. Hendy
Mr. & Mrs. J.T. Hepburn
Adam B.T. Hermant
John D. Hermant
Peter Hermant
Sydney Hermant
John D. Herrick
Col. R.H. Hilborn
William S. Hill
Mr. & Mrs. Herbert R. Hobbes
Dorothy Hobbs
Mr. & Mrs. C.C. Hoffman
Dennis Holota
Mrs. E. Howell

A.E.M. Inwood
John F. Irwin

W. Henry Jackman
Henry N.R. Jackman
John Jervis
John M.P. Joel
Norman M. Johnston
James H. Joyce
Friederich W. Jung

Elfreda W. Karn
John Kemp
F. Marion Kiddell
Christopher C. King
Rev. Sterling Kitchen

Aileen M. Lacey
James G. Laidlaw
A.T. Lambert
John V. Lawer, Q.C.
H.R. Lawson
Col. Wm. R. Learmonth
M.Gen. Bruce J. Legge, C.M.M.
Mr. & Mrs. Kenneth C. Legge
Arthur S. Leman
Gordon Lennox
James D. Lewis
R.G. Loftus
Mr. & Mrs. D.D. Lucas
Joseph F. Luciano

E. Nelson MacNab
John & Gail MacNaughton

George L. Marshall
C. John Martin
Major-General A. Bruce Matthews
Beverley Matthews Q.C.
Ewald P. Mazurek
Betty E. McAdam
Fred G. McBrien
John S.G. McCrimmon
F.Y. McCutcheon
James W. McCutcheon Q.C.
John T. McMurray
Konrad R.W. Mech
John D. Memory
Dr. Herbert Michel
W.G. Mikkila
Edwin Mirvish
James R. Montgomery
D.M. Morrison
John S. Moses
D.V. Mosher
Mr. & Mrs. Clifford N. Moss
Clara Miriam Muskat

John F. Nagel
Mrs. Marjorie Naylor
Bernard T. Ness
Ryland J. New
Elias A. Noustas

Major R.B. & Mrs. Oglesby
A.S. Olver
Stanislaw T. Orlowski

Dr. James A. Parish
John A. Patton
Edward H. Paul
Norman Pearson
B.E. Plain
Dr. Ira Pollock
Virginia D.R. Prati
D.A. Pryer

W.H. Reid
Grant L. Reuber
John E. Richardson
The Rev. Howard R. Rokeby-Thomas
Mrs. Roman-Barber
Professor Henry U. Ross
Lt.Col. R.C. Rutherford

Dr. T. Tweed Samis
Leo E. Schacter, Q.C.
A.P.H. Schemmer Sr.
G.M. Sellar
Mrs. H.R. Shaver

Samuel V. Shefsky
Dorothy E. Shepherd
Dr. & Mrs. W.K. Shultis
James R. Smeed
Mrs. Donald T. Smith
Albert Smith, Q.C.
Carleton Smith
Sam Sniderman, C.M.
Dr. & Mrs. R.F. Stackhouse
G.O. Stafford
Henry J. Stalder
Mr. & Mrs. G.G. Steele
Prof. Peter Stingelin
Mrs. Edgar J. Stone
Senator The Honourable
Joseph A. Sullivan

Graham John Tappin
Mrs. Barton F. Teasdale
Kenneth M. Thomas
K.R. Thomson
Leonard I. Turkevics
R. Turnbull
Capt. T.C. Turner
L.Col. P.J. Tuz
Harry T. Tye

Michael Van Denbossche
Dr. Devendra P. Varma

Gordon Waldie, Q.C.
Wm. B. Watkins
Kenneth M. Watson
F. Bartlett Watt
Hebert L. Webb
R.H. Webster
Sydney G. Webster
Douglas S. Wells
Phyllis Wheeler
J.K. Williams, Q.C.
Walter James R. Wilson
Sydney Winkler
G.D. Wotherspoon

Koichiro Yamaguchi

Andrew Stephen Zarnett

Regular Members

Raymond S.N. Abbott
Very Rev. S. Duncan Abraham
Norman C. Achen
Michael Adams
Wm. G. Addison
Elizabeth Addy
Mary Aduckiewicz
Donald Scott Affleck
Harold G. Aggett
H.H. Alexander
Doug Allen
Junichi Amano
L. Amato
Mrs. P.J. Ambrose
Rev. Harry Amey
A.A. Amos, C.D.
K.B. Andras
John Andras
Harry E. Andrews
Ram Angod
D.L. Angus
Jas. K. Angus
Paul F. Anisman
R.F.K. Anthony
Bluma Appel
Ronald Appleby, Q.C.
Wm. D. Archbold
Wm L. Archer, Q.C.
C.R. Archibald, Q.C.
Dr. W.R. Argent
G. Warren Armstrong
Robert Armstrong
Anne E. Armstrong
Greg Armstrong
Timothy J. Armstrong
Joe C.W. Armstrong
Mrs. Toni Ashton
D.B. Astley
Robert H. Aylward
A.M. Aymong

F.H. Badgley
Carlo Badoer
John H. Bailey
David W. Bain
Gordon R. Baker
Samuel R. Baker
Thomas C.H. Baldwin
Norman E. Balfour
Jacqueline Jean Baptiste
Col. J.R. Barber
Edward John Barker
Bruce C. Barker
C.S. Barltrop
Robert J. Barnett
David E. Barr
Barbara H. Barrett
Phillip E. Barron
Joyce Barslow

Douglas Bassett
Alice B. Bastedo
Gordon T. Batchelor
Paul Anthony Bate
D.H.W. Bath
Robert Bathgate
Robert N. Baugniet
John H. Baycroft
Gail Beal
K.J. Beamish
A. Beattie, Q.C.
R.I. Beatty
The Hon. Perrin Beatty
Monty C. Beber
Nuala Beck
Fred E. Becker
R. Scott Becksted
Cynthia Bedborough
E.E. Bekhor
J.A.G. Bell
B.Gen. G.G. Bell
D. Casson Bell
William W. Bell
Ronald G. Bell
Mrs. N.B. Bell
Selwyn P. Belsher
Paul Von Benckendorff
Chf. Judge C.E. Bennett
Beatrice Bennett
Jim K. Beqaj
Hy Bergel
William W. Berghuis
Al Bernadine
Dr. Henry Berry
M.R. Berry
William James Berry
Andrew J. Bertram
Mrs. A. Besko
Robert E. Bethell
D.W. Betty
Ruth Bick
J.L. Biddell
Linda Binns
Barbara Birchwood
Brian A. Birkness
Thomas H. Bjarnason
Grace Black
Fred A. Blain
Florence L. Blair
Douglas K. Blair
P.J.M. Bloemen
Graham D. (Sam) Blyth
Carole A. Boivin
John W. Bolus
William A. Bones
G. Douglas Bonner
L.C. Bonnycastle
P.A. Bonyun
Edward Borins
Norman Borski Q.C.
P. Alexander Borthwick
Jessie K. Borthwick
William B. Bot
Peter S. Boultbee
Jean Louis Bourbeau
Frederic R. Bourne
Neil Bousquet
W.A. Bowen
C. Blaine Bowyer
Louise M. Boyd
Bruce Boyden
Lydia M. Boyko
P.A. Bracken
Mary Margaret Bradfield
Stephen Bradford
Christopher G. Bradley
John Bradlow
Ronald Bradshaw
Chuck Brady
Robert Braeunig
J. Lorne Braithwaite
George V. Bramm
Richard A. Brayley
James R. Breithaupt, Q.C.
R. John Bridges
Gary T. Briggs
Charles F. Broad
Douglas Broad
Malcolm J. Broadbent
W.H. Broadhurst
John C. Brooks
Mannie Brown
Christopher Brown
J. Drew Brown
George Brown
Ota Browne
Eve Brummer
David Brune
George M. Bryson
Roel C. Buck
Robt. A. Budd
Gay T. Budra
Alexander Budrevics
Fred Buehrer
Dr. Bernd Buffo
Sarmite D. Bulte
Pearce Bunting
Yovhan Burega
H.T. Burgess
Richard E. Burgess

C. Robert Burgess
Grover C. Burgis
Paul A. Burnes
Hazel Burns
Jeffrey Burns
Leslie G. Burns
E.G. Burnside
Norman Burrough
M.B. Bursey
Lt.Col. G.A. Burton
Theda A. Burton
Eleanor J. Burton
Richard S. Buski
David G. Butler
Frank Butler
James E. Butler
B. Mae Byrne, C.A.
Thomas P. Byrne

A.W. Cadotte
Doug Caldwell
Donald Ross Cameron, Q.C.
Lt.Col. A.G. Cameron
Cmdr. John J. Cameron, C.D.
S. Scott Cameron
Gerald C. Cameron
Dr. D.R. Cameron
Etienne Cammaert
Linda A. Camp
Mac D. Campbell
C.J. Campbell
R.A. Campbell
Gordon R.W. Campbell
John A. Campion
Georgina Cannon
Joe Cappe
N.R. Cappe, Q.C.
Nancy L. Carnwath
Roy Carscadden
Dorothea Carter
Hugh M. Carter
Gordon Carton
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A.V. Steele
C.H. Steinbach
Friedrich Steinke
Bette M. Stephenson
Robt. W.F. Stephenson
S.M. Stevens
W. Paul Stevenson
Henry E. Stewart
J. Ross Stewart
M.M.R. Stewart
William A. Stewart
Ian G. Stewart
Donald C. Stewart
Hugh P. Stewart
Stefan W. Stillich
F.C. Stinson
Robert V. Stinson
Peter K. Stinson
John Stirling
John J. Stonborough
Gunter Strangemann
Diane Stratas
James B. Stratton
Frank Stronach
Ronald S. Stuart
Dr. Robert H. Stubbs
Thomas J. Succamore
A. Sutton
Marshall B. Sutton
Maj. George D. Suzuki
Alan Swabey
Robert A. Swan
Gordon W. Swayze
Brian A. Sweeney
Brian R. Sweet

R.C. Swenson
Benjamin Swirsky
Mark Synnott

N.G. Talanow
Howard A. Tate
C.A. Tayhardat
P.H. Taylor
Marina Taylor
Henri Tellier
W. Michael Temple Q.C.
Bonita J. Then
J. Laurent Thibault
Louis R. Thomas
Blair W. Thompson
Murray A. Thompson, Q.C.
Lloyd G. Thompson
Craig Thompson
Col. G.S. Thomson
H. Diane Thornton
Kathryn J. Thornton
Keith L. Thrower
Arthur Tinker
William W. Tinmouth
Robert M. Topp
Rev. Ann Tottenham
Allen L. Tower
Hans Traber
Ed Travolo
Fred J. Troop
J.R. Trott
Samuel Tugham
Wayne L. Tunney
W.G. Turnbull
J.R.A. Turner
W.I. Turner
Edward G. Turner
Terrence Tyers
Paul Tyers

Viktor H. Utermann

John T. Valiant
Peter R. Vallieres
A.H.M. Claus Van Banning
I.N. Van Nostrand
H. Van Remortal
Burke Van Valkenburg
Rev. William. P. Vanderveeken
Donald S. Van Derwielen
Pete Vanexan
Anna Vanstraubenzee
Joseph A. Varadi
Dr. Douglas H. Varey
Nora E. Vaughan

Mrs. J.E. Vereshack
William R.N. Verner
Mary Vernola
G.P.H. Vernon
B. Versi
John William Vincent
Lon L.E. Vining
Dr. Henning L. Von Hassell

George H. Wagner
Donald Ernest Wakefield
Jan Waldauf
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W. Ross Walker
David J. Walker
Thomas A. Wardle
Cynthia Borovoy Warren
E.W. Warren
James K. Warrillow
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Sy L. Wassenaar, Q.C.
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Nancey Watson
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Alan Graeme Watson
Ruth Watson
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Richard S. Webb
George Weber
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Charles W. Weir
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Michael G. Weissenborn
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Loren A. Wells
J.L. Wells
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Jerry Whelan
Michael G. Whelpton
R.G. White
William F. White
John H. White
Doris M. White
Norman R.A. White
J.A. William Whiteacre
Warren Whitehead
Kenneth G. Whiteside

Richard L. Whittington
W.P. Wilder
A.C.L. Wildman
David H. Wilkes
Warren D. Wilkins
Nancy Waite Willer
Rev. Ridley Williams
Penny Williams
Katharine Williams
P.W. Willis
Mary L. Williss
Bruce F. Willson
Geo. A. Wilson
L.R. Wilson
Thomas B. Wilson
Thomas H. Wilson
David M. Wilson
Gordon Wilson
Jim Wilson
Margaret Wilson
The Hon. Michael Wilson
Patrick J. Wolfe
Geoffrey H. Wood
Peter L. Wood
James Wood
George W. Woods
M. Julia Woollcombe
Harry Worsley
James R. Wright
R.G. Wright
Wilfred J. Wright
Paul Wright
David J. Wright
Christopher D.C. Wright
Dr. Douglas T. Wright
H.L. Wyatt

Y. Yamanokuchi
A.S. Yankovich
Helene Yaremko-Jarvis
William B. Yeats
Jonathan C. Yen
Lucy Yendell
Paul Yocom
John H. Yocom
Ernest Younes
J.E.G. Young

Stephen Zahumeny
Dr. Klaus M. Zeitler
John L. Zeldin
Stanley R. Zupan, Q.C.
Manfred Zwirtes

Spousal Members

Mr. & Mrs. R.J. Acheson
Mr. & Mrs. W.H. Adams
Mr. & Mrs. Sultanali Ajani
Mr. & Mrs. N.W. Allingham
Mrs. M. Allworth-Johnston
Mr. & Mrs. John R. Altenau
Dr. & Mrs. Mohammed M.R. Amin
Mr. & Mrs. M.G. Appel
Mr. & Mrs. B. Armstrong
Mr. & Mrs. G.E. Armstrong

Mr. & Mrs. Ed Badovinac
Mr. & Mrs. Wm. H.C. Bailey
Mr. & Mrs. John F. Bankes
Mr. & Mrs. M.C.S. Baptista
Mr. & Mrs. Jack C. Barrow
Mr. & Mrs. J.P. Bassel
Mr. & Mrs. W. Donald Bean
M. Joslin Bennett
Mr. & Mrs. Peter Bijur
Mr. & Mrs. Robert Bilski
Mr. & Mrs. K.D. Bindhart
Dr. & Mrs. P.P. Biringer
Mr. & Mrs. R. Blakely
Earl & Alda Bleeks
Mr. & Mrs. Jack Blustein
Mr. & Mrs. John M. Boersma
Mr. & Mrs. H.E. Bolliger
Mr. & Mrs. D.F. Bonyun
Mr. & Mrs. M. Borinsky
Mr. & Mrs. Roger H. Boyajian
Mr. & Mrs. J.P. Boyer
Mr. & Mrs. Reg F. Breaker
Mr. & Mrs. N.E. Breeze
Mr. & Mrs. K. Breuer
Mr. & Mrs. W.G. Brissenden
Mr. & Mrs. G.O. Brown
Mr. & Mrs. D.H. Brown
Mr. & Mrs. Covell Brown
Mr. & Mrs. L.H. Burbage
Mr. & Mrs. Edward W. Burrow
James Bursey & Kate Phillips
Mr. & Mrs. S.L. Butkovic

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John & Carmella Cameron
Mr. & Mrs. K.L. Campbell
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Mr. & Mrs. George Chalmers
Mr. & Mrs. Edwin A. Christie
Mr. & Mrs. James C. Claydon
Mr. & Mrs. Noel Cogdon
Mr. & Mrs. J.M. Coker
Mr. & Mrs. J. Carl Copeland
Mr. & Mrs. M.A. Cornelissen
Mr. & Mrs. W.C. Coupland
Mr. & Mrs. E.E. Coutts
Mr. & Mrs. D.B. Cowper
Mr. & Mrs. M.H. Cross

Mr. & Mrs. R.A. Daly
Mr. & Mrs. B. Danczkay
Mr. & Mrs. R.S. Davies
Mr. & Mrs. L.W. Davis
Mr. & Mrs. Pat Delbridge
Mr. & Mrs. Robert J. Deluce
Mr. & Mrs. William Deluce
Mr. & Mrs. Wm. B. Dix
Mr. & Mrs. M.W. Donald
Mr. & Mrs. L.R. Douglas
Mr. & Mrs. Theodore K. Draimin
Major & Mrs. W.A. Duncan
Mr. & Mrs. H. Dyson
Mr. & Mrs. Terry Eagen
Mr. & Mrs. Warren Elliott
Mr. & Mrs. James B. Elmsley
Mr. & Mrs. J.J. Esdaile
Mr. & Mrs. James M. Estey
Dr. & Mrs. J.E.L. Evans
Mr. & Mrs. Peter Evans

Dr. & Mrs. W.H. Fader
Mr. & Mrs. Len Favreau
Mr. & Mrs. D.Y. Ferguson
Mr. & Mrs. T.F. Fleming
Mr. & Mrs. R.P. Fournier
Mr. & Mrs. Kenneth A. Fralick
Mr. & Mrs. Doug L. Friesen

Dianne Giguere & Robert Woods
Mr. & Mrs. R.S. Gillian
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Mr. & Mrs. Edwin Goodman
Mr. & Mrs. David R. Grant
Mr. & Mrs. John C. Gray
Mr. & Mrs. E.L. Greenspan
Mr. & Mrs. John Grosart
Mr. & Mrs. Ivan Grose
Mr. & Mrs. R.F. Gulliford
Mr. & Mrs. R.G. Guyatt

Mr. & Mrs. J.B. Hamilton
Mr. & Mrs. C.L. Haney
Mr. & Mrs. L.H. Harper
Mr. & Mrs. Jack Hastie
Mr. & Mrs. H.B. Hathaway
Mr. & Mrs. J.H. Hawke

William Heaslip & Nona Macdonald
Mr. & Mrs. W.B. Heath
Mr. & Mrs. Charles G. Heinrich
Mr. & Mrs. Arthur W. Henschel
Dr. & Mrs. C.K. Herz
Dr. John & Dr. Jean Hill
Mr. & Mrs. D.H. Hitchins
Mr. & Mrs. John E. Hore
Mr. & Mrs. B.C. Howard
Mr. & Mrs. D.E. Howard
Mr. & Mrs. Michael Huang

Mr. & Mrs. Fred Illies
Mr. & Mrs. D.D. Irwin

Mr. & Mrs. Sidney L. Jaffe
Mr. & Mrs. K.M. James
Mr. & Mrs. N.A. Jutha

Mr. & Mrs. R. James Kane
Dr. & Mrs. Clark Keaton
Mr. & Mrs. Clayton Keefe
Mr. & Mrs. J. Timothy
Mr. & Mrs. T.E. Kent
Mr. & Mrs. David Kinnear
Mr. & Mrs. A.G. Kniewasser
Marilyn & Henry Knowles
Mr. & Mrs. Raymond Ko
R. Devine & K. Konkel
Dr. & Mrs. Paul Koonings

Sen. & Mrs. Daniel Lang
Mr. & Mrs. G.K. Langford
Maj. & Mrs. A.J. Langley
Mr. & Mrs. Dieter H. Lantin
Mr. & Mrs. J.R. Lapointe
Mr. & Mrs. Montague Larkin
Mr. & Mrs. John H. Lawlor
Mr. & Mrs. D.G. Lawson
John B.J. Legge & Mary Stokes
Mr. & Mrs. Thomas Leslie
Mr. & Mrs. M.G. Lidstone
Mr. & Mrs. Alex U. Lind
Mr. & Mrs. Robert Lindegger
Mr. & Mrs. E. Little
Mr. & Mrs. Francis C. Lock
Robert & Margaret Logtin
Mr. & Mrs. Louis R. Ronson
Mr. & Mrs. John P. MacBeth
Mr. & Mrs. H.J. MacDonald
Mr. & Mrs. B.H. MacDougall
Mr. & Mrs. H.M. MacDougall
Mr. & Mrs. William Mackness
Mr. & Mrs. William Gordon MacLaren
Mr. & Mrs. B. MacMillan
Mr. & Mrs. Dennis Madden
Mr. & Mrs. M.S. Malicki
Mr. & Mrs. J.T. Manley
Dr. & Mrs. F.J. Martyniuk
Mr. & Mrs. Jos. C. McCarthy
Mr. & Mrs. Donald McCarthy
Mr. & Mrs. J.D. McFadyen
B.Gen. & Mrs. John A. McGinnis
Mr. & Mrs. Wm. McGuigan
Mr. & Mrs. Winfield McKay
Mr. & Mrs. Ross McKee
Mr. & Mrs. R.N. McMillan
Mr. & Mrs. R.J. McVicar
Mr. & Mrs. S.J. Mendelson
Mr. & Mrs. D.G.C. Menzel
Mr. & Mrs. Roger J. Middleton
Florence Minz
Mr. & Mrs. C. Danny Missios
Mr. & Mrs. H.B. Monteith
Mr. & Mrs. M. Montgomery
Janet Mowat & Glenn Brown
Mr. & Mrs. Wolfgang Mueller
Mr. & Mrs. B.G. Murk
Mr. & Mrs. A.P. Murphy

Mr. & Mrs. Hameed A. Naqvi
Dr. & Mrs. G.B. Nichols
Mr. & Mrs. K. Nicholson
Mr. & Mrs. H. Nussbaum

Mr. & Mrs. E.G. Osler

Mr. & Mrs. Dimitrios Papavramidis
Mr. & Mrs. V. Pappalardo
Mr. & Mrs. L.C. Parkinson
Mr. & Mrs. R.J. Paterson
Mr. & Mrs. Vincent P. Paul
Mr. & Mrs. Raymond Pocoski
Mr. & Mrs. Kenneth Peel
Mr. & Mrs. Martin Petlock
Mr. & Mrs. E.B. Pinnington
Rev. C.R. & Ida Plaskett
Mr. & Mrs. P.H. Pocklington
Mr. & Mrs. John H. Pollock
The Hon. Mr. Justice J.H. Potts & Mrs. Potts
Mr. & Mrs. J.H. Prenger
Mr. & Mrs. Robert Price

Mr. & Mrs. Wm. A. Ragsdale
Mr. & Mrs. Wm. E. Raney
Mr. & Mrs. Forrest Rankine
Mr. & Mrs. R.A. Rawkins
Mr. & Mrs. J. Reid-Weston
Mr. & Mrs. E.G. Reynolds

Mr. & Mrs. Adrian J. Melville-Richards
Mr. & Mrs. C.E. Ritchie
Rev. & Mrs. H.F. Roberts
Mr. & Mrs. Walter Roberts
Mr. & Mrs. D.M. Robinson
Mr. & Mrs. Edward S. Rogers
Mr. & Mrs. William M. Ross
Mr. & Mrs. G.H. Rutledge

Mr. & Mrs. T.H. Salisbury
Mr. & Mrs. R. Mcc Samples
Mr. & Mrs. Miles Santo
Mr. & Mrs. David Saunders
Mr. & Mrs. Thomas H. Savage
Mr. & Mrs. J-P Scheidegger
Mr. & Mrs. Brian Scorey
Mr. & Mrs. P.H. Scrivener
Mr. & Mrs. Daniel J. Scully
Mr. & Mrs. G.G. Sedgwick
Mr. & Mrs. John Seltzer
Mr. & Mrs. H.T. Seymour
Mr. & Mrs. William I. Smith
Mr. & Mrs. W. Peter Smith
Mr. & Mrs. Robert L. Smyth
Mr. & Mrs. Robt. S. Spencer
Marie Corbett & Alex Squires
Dr. & Mrs. A. Squires
Mr. & Mrs. R.B. Stapells
Mr. Justice & Mrs. D.R. Steele
Mr. & Mrs. G.M. Steele
Mr. & Mrs. A.I. Stevens
Dr. & Mrs. D.A. Stewart
Mr. & Mrs. M.J.K. Stewart
Mr. & Mrs. Fred C. Stokes
Mr. & Mrs. Walt E. Stracey
Mr. & Mrs. Allan Strader
Mr. & Mrs. A.K. Stuart
Mr. & Mrs. James G. Stuart
Mr. & Mrs. R.G.P. Styles
Mr. & Mrs. Gordon S. Sutton
Grey Swanton/Claire St. Arnaud
Richard & Nancy Lunney

Mr. & Mrs. Elmar Tampold
Mr. & Mrs. Wayne Tanenbaum
Mr. & Mrs. J. Edward Tate
Mr. & Mrs. Tom Taylor
Mr. & Mrs. A.R. Taylor
Peter & Jean Teresko
Mr. & Mrs. Nizar Tharani
Reno Tibljas & Janet McColl
Mr. & Mrs. L.D. Todgham
Mr. & Mrs. P.A. Tongs
Mr. & Mrs. R.S. Traquair

Mr. & Mrs. A.A. van Straubenzee
Mr. & Mrs. C. Vanstone
Mr. & Mrs. Albert E. Vella
Mr. & Mrs. Ron Walton
Rev. & Mrs. J. Robt Watt
Mr. & Mrs. Robt C. Watt
Professor & Mrs. Patrick C.T. White
Mr. & Mrs. Wm. G. Whittaker
Mr. & Mrs. John B. Wilkes
Mr. & Mrs. L.H. Williams
Marie Wilson and R.A. Sanders
Mr. & Mrs. R. Wilson
Mr. & Mrs. Herbert L. Wisebrod
Mr. & Mrs. Ron Woodard
Mr. & Mrs. G.A. Wright

Mr. & Mrs. John Yaremko

Student Members

Linda Susan Abrams

Patrick Dorais

Kevin Forrest
Pamela D. Fruitman

Michael Edward Gerrior

Steven Kates

Francois Letheule

Gregory S. Marshall
Thomas A. McIver
Adam McIver
John C. McLaughlin

Peter Nigosian

Donald Parke

M. Jean Reilly

Cody Dean Sherman
John W.F. Smith

Pascala Sola

William Warburton
Bruce M. Wright

Auditor's Report

To the Members of
The Empire Club of Canada

We have examined the balance sheet of The Empire Club of Canada as at April 30, 1988 and the statements of members' equity and revenue and expenditure for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Club as at April 30, 1988 and the results of its activities for the year then ended in accordance with the accounting principles as set out in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

DUNWOODY & COMPANY
Chartered Accountants

Toronto, Ontario
June 9, 1988

Financial Report

THE EMPIRE CLUB OF CANADA

Balance Sheet as at April 30, 1988

Assets	1988	1987
Current		
Cash and short-term deposit receipts	$ 185,097	$ 186,535
Accounts receivable	8,840	3,324
	193,937	189,859
Fixed Assets	1	1
	$ 193,938	$ 189,860
Liabilities		
Current		
Accounts payable	$ 12,921	$ 28,605
Due to The Empire Club Foundation	33,477	43,141
Membership fees and luncheon tickets paid in advance	7,897	7,783
	54,295	79,529
Members' Equity		
Life Membership Reserve, note 2	23,650	24,450
Surplus	115,993	85,881
	139,643	110,331
	$ 193,938	$ 189,860

Significant Accounting Policies, note 1
Commitment, note 3

Approved on behalf of the Board

RONALD GOODALL
Director

A.A. VAN STRAUBENZEE
Director

Financial Report

THE EMPIRE CLUB OF CANADA

Statement of Members' Equity
for the Year Ended April 30, 1988

	1988	1987
Surplus, Beginning of Year	$ 85,881	$ 74,366
Transfer from (to) life membership reserve	800	(700)
Excess of revenue over expenditure for the year	29,312	12,215
Surplus, End of Year	115,993	85,881
Life Membership Reserve, Beginning of Year	24,450	23,750
Transfer from (to) surplus, note 2	(800)	700
Life Membership Reserve, End of Year	23,650	24,450
	$ 139,643	$ 110,331

Financial Report

THE EMPIRE CLUB OF CANADA

Statement of Revenue and Expenditure for the Year Ended April 30, 1988

	1988	1987
Revenue		
Membership fees	$ 57,065	$ 59,102
Luncheons – net	40,051	28,904
Interest	11,688	10,666
Others – net	4,229	7,844
	113,033	106,516
Expenditure		
Members' notices	19,556	24,643
Office salaries and employee benefits	23,898	26,063
Yearbook donation and sundry expenses	11,719	11,688
Publicity and promotion	941	2,286
Printing, stationery and postage	8,680	8,355
Rent	9,474	8,907
Meetings	875	805
Office and general	7,316	9,966
Telephone	1,262	1,588
	83,721	94,301
Excess of Revenue Over Expenditure for the Year	$ 29,312	$ 12,215

Financial Report

THE EMPIRE CLUB OF CANADA

Notes to Financial Statements
for the Year Ended April 30, 1988

1. *Significant Accounting Policies*

   The following is a summary of significant accounting policies of the Club:

   (a) Revenue Recognition

   Membership fees for The Club are recorded on a cash basis except fees relating to the next fiscal year are deferred. All other revenues are recorded on the accrual basis of accounting.

   (b) Inventory

   Inventory is valued at the lower of cost and net realizable value.

   (c) Fixed Assets

   Fixed assets, consisting of office furniture and equipment, are recorded at nominal value and additions are recognized as an office and general expenditure in the year acquired.

   (d) Due to The Empire Club Foundation

   A donation to The Empire Club Foundation for the estimated cost of supplying the Club's membership with the yearbook of the current year is accrued each year. The balance includes the estimated costs of unpublished yearbooks.

2. *Life Membership Reserve*

   Term deposit receipts are segregated as funding for this reserve in order to provide a continuing income to sustain the membership costs of life members. The reserve has been decreased by $800 (1987 - increased by $700) in the current year to allow for decreases in the life membership roll.

3. *Commitment*

   The Club occupies office space which it shares with another society under a lease agreement expiring September 30, 1988.

4. *Incorporation*

   The Club was incorporated under letters patent in the Province of Ontario on March 26, 1912. The principal function of the Club is to provide a forum for prominent people to address members of the Club and their guests on topics of current interest.

The Empire Club Foundation

CONTRIBUTORS: 1987-1988

PATRONS ($1,000.00 or more)

Algoma Steel Corporation, Ltd.
The Billingshurst Arts Foundation
M.G. DeGroote
General Mills Canada, Inc.
John W.F. Griffin
Magna International Canada Inc.
The Rt. Hon. Roland Michener, P.C., C.C.
Municipality of Metropolitan Toronto
Olympia & York Developments Limited
Shell Canada Limited

ENDOWMENT BENEFACTORS ($500.00 TO $999.99)

The Canada Trust Company
Jack Cooper Family Foundation
Dominion Securities Foundation
The Eaton Foundation
C.W. Goldring
Griffin House Graphics Limited
Imperial Optical Company Ltd.
John Labatt Limited
James W. McCutcheon, Q.C.
C.E. Medland
RJR-Macdonald Inc.
Allan R. Taylor
Texaco Canada Inc.
TransCanada PipeLines
George Weston Limited

BENEFACTORS ($300.00 to $499.99)

Alcan Aluminium Limited
Algoma Central Railway
John D. Allan
S.F. Andrunyk
Robert L. Armstrong
Bank of Montreal
The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Canadian National Railway
Canadian Pacific Hotels
Canadian Reinsurance Company
Deloitte Haskins & Sells
William A. Farlinger
General Motors of Canada Limited
Guaranty Trust Co. Limited
Hayes-Dana Inc.
Imperial Oil Limited
Inco Limited
Johnson & Higgins Willis Faber Ltd.
Lake Ontario Cement Limited
Ruth E.H. Langley
Bruce J. Legge, Q.C.
Minas Basin Pulp and Power Co. Ltd.
National Trust
Nesbitt, Thomson Inc.
Peoples Jewellers Limited
Polysar Limited
Royal Insurance Canada

Royal Trust
Sears Canada Inc.
Southam Inc.
State Farm Insurance Companies
Union Bank of Switzerland (Canada)
Volvo Canada Ltd.
J.A. William Whiteacre, Q.C.
F.W. Woolworth Co. Limited

DONORS ($100.00 TO $299.99)

The Armadale Foundation
Thomas J. Bata
A. Beattie
Canada Packers Inc.
Canadian Corporate Management Co. Ltd.
Wendy Cecil-Cockwell
Sir Arthur Chetwynd, Bt.
Commercial Union Canada
Mr. & Mrs. John Grosart
Isabel L. Healey
William Heaslip
Dr. & Mrs. R. Horvath
Arnold B. Irwin
James Laidlaw
The Hon. Daniel A. Lang, Q.C.
Lawson Mardon Group Limited
John P. MacBeth
John A. MacNaughton
Marsh & McLennan Ltd.
David G.C. Menzel
David A. Ogilvie
Eric Partington
Redpath Industries Limited
John M. Thompson
John Yaremko

Auditor's Report

To the Members of
The Empire Club Foundation

We have examined the balance sheet of The Empire Club Foundation as at April 30, 1988 and the statement of income and expense and members' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of The Empire Club Foundation as at April 30, 1988 and the results of its operations for the year then ended in accordance with the accounting principles outlined in note 2, applied on a basis consistent with that of the preceding year.

SMITH, NIXON & CO.
CHARTERED ACCOUNTANTS

Toronto, August 24, 1988

Financial Report

THE EMPIRE CLUB FOUNDATION

Balance Sheet as at April 30, 1988

	1988	1987
Assets		
Current Assets		
Cash and term deposits	$ 72,970	$ 55,582
Accounts and interest receivable	55	825
Due from Empire Club of Canada	33,477	43,140
	$ 106,502	$ 99,547
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 90,425	$ 80,478
Members' Equity		
Equity	16,077	19,069
	$ 106,502	$ 99,547

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB FOUNDATION

Statement of Income and Expense and Members' Equity for the Year Ended April 30, 1988

	1988	1987
Income		
Donations:		
Empire Club of Canada	$ 10,000	$ 10,704
Supporters	34,638	35,241
The Empire Ball	7,160	11,859
Interest	955	2,812
Book sales	10	50
	52,763	60,666
Expense		
Yearbook (Note 3)	55,728	49,550
Stationery, postage and other expenses	27	207
	55,755	49,757
Excess of Income Over Expense (Expense Over Income) for the Year	(2,992)	10,909
Members' Equity - Beginning of Year	19,069	8,160
Members' Equity - End of Year	$ 16,077	$ 19,069

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB FOUNDATION

Notes to Financial Statements
for the Year Ended April 30, 1988

1. *The Foundation*

   The Foundation was incorporated on January 22, 1969, under the laws of Canada as a nonprofit organization. The principal function of the Foundation is the publication and distribution of yearbooks, containing the texts of addresses to The Empire Club of Canada, to the Club's members and libraries across Canada. The Foundation's activities are funded by donations.

2. *Accounting Policies*

   The Foundation includes donations in income when received except for donations from The Empire Club of Canada which are included in income when pledged. The estimated cost of publishing and distributing yearbooks of the current year is accrued each year.

3. *Yearbook Expense*

   As a result of a redesign of the yearbook, actual costs of the 1984 - 1985 yearbook exceeded estimated costs by $18,897. This amount was included in yearbook expense for the year ended April 30, 1986.

SMITH, NIXON & CO.
CHARTERED ACCOUNTANTS

Constitution

As amended April 26, 1973

ORGANIZATION OF THE CLUB

ARTICLE I

Name

1. The name of the club shall be The Empire Club of Canada.

Purpose and Object

2. The purpose and object of the club is to promote the interests of Canada and the British Commonwealth by the consideration and discussion of subjects and events relating thereto and by any other means appropriate to the facilities of the club.

Membership

ARTICLE II

Classes of Members

1. The membership of the club shall consist of:
   (a) Honorary members
   (b) Life members
   (c) Regular members
   (d) Corporate members

   All members of classes (a), (b), (c), must be the full age of eighteen years.

Honorary Members

2. Honorary members may be elected by the unanimous vote of those present at a meeting of the board of directors. They shall be exempt from the payment of fees but shall not have the privilege of voting or holding office and their membership shall be terminable at any time by a two-thirds majority of those present at a meeting of the board of directors.

Life Members

3. Members of the club in good standing (other than corporate members) and other persons regularly proposed may be elected life members by a two-thirds majority of those present at a meeting of the board of directors. Life members shall pay such a

fee in one sum as may be fixed from time to time by the board of directors.

Regular Members

4. Save as provided in Section 5 of this Article candidates for regular membership shall be proposed by a member in good standing and shall be elected by a two-thirds majority of those present at a meeting of the board of directors.

   Save as provided in Section 5 of this Article regular members shall pay respectively such annual fees as may be fixed from time to time by the board of directors.[1] Members elected after the first day of March in any year shall pay one annual fee only in respect of the period from the date of election until the thirtieth day of September in the following year. No member in arrears for fees after January 1 shall be considered in good standing.

Corporate Members

5. Any company, partnership or business organization shall be eligible for election as a corporate member. Applicants shall be proposed by a member in good standing and the application shall contain the names and positions of the persons nominated by the applicant as its representative regular members. The applicant and its nominated representatives shall be elected by a two-thirds majority of those present at a meeting of the board of directors. A corporate member shall be entitled to nominate such number of its representative regular members as may be fixed from time to time by the board of directors and shall pay such annual fee as may be fixed from time to time by the board of directors, provided that such fee shall not be less than the aggregate fees which would have been payable on an individual basis by such representative members for the year in question. Save as in this section provided no fee shall be payable by or in respect of the representative regular members of a corporate member.

Directors

ARTICLE III

Duties and Powers

1. The affairs of the club shall be managed by a board of directors

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[1] *By resolution of the Board, November, 1981, and under Article II, 4, of the Constitution, it was agreed that the club charge a lesser membership fee for spouses living at the same residence, and that this fee should be fixed annually.*

who may exercise all such powers and do all such acts and things as may be exercised or done by the club and are not by the by-laws or by law directed or required to be done by the club at a general meeting of its members. At all meetings of the board of directors the chairman of the meeting shall have a casting vote.

Number and Quorum

2. The board of directors shall consist of forty members of whom sixteen shall constitute a quorum. The board of directors shall include at least four past presidents of the club, one of whom shall be the immediate past president and three others shall be the three past presidents immediately preceding the immediate past president if they are willing and able to act as directors.

Election of Directors

3. A nominating committee consisting of five members of the board of directors and four other regular members of the club shall be appointed annually by the board of directors at least thirty days prior to the annual meeting and shall prepare a list of nominations for directors for the ensuing year. The chairman or acting chairman of the nominating committee shall report the nominations of that committee to the annual meeting at which the board of directors shall be elected, but nothing herein shall preclude the nomination of other persons for the office of directors at the annual meeting. If nominations do not exceed the number of directors necessary, the chairman of the meeting may instruct the Secretary-Treasurer to cast one ballot in favour of those so nominated and thereupon such persons shall be declared by the chairman to have been duly elected. No person shall be elected a director unless he is a regular member in good standing and is a Canadian citizen or a British subject.

Meetings of Directors

4. Meetings of the board of directors shall be called by the President, or on a requisition signed by three of its members. Written notice of such meetings shall be given to each director five days or more before the meeting is to take place, provided that a meeting may be held at any time if all the directors are present or if those absent have waived notice of or otherwise signified their consent to such meeting being held in their absence or have approved or signified their approval in writing to the proceedings taken at the meeting. The board may appoint a day or days in any month or months for regular meetings, at any hour place to be named, and of such regular meeting, no notice need be given.

Casual Vacancies

5. In the event of any vacancy occurring in the office of director, the remaining directors may fill the vacancy from among the members for the unexpired portion of the term of office of the person whose office is vacant.

Officers

ARTICLE IV

1. The officers shall consist of an Honorary President, an Honorary Vice President, a President, First, Second and Third Vice Presidents, an Honorary Treasurer, an Honorary Secretary, a Secretary and a Treasurer. The board of directors may from time to time elect or appoint such other officers as it shall deem necessary. The President and the Vice Presidents shall be directors of the club but other officers need not be directors. No person other than the Honorary President and the Honorary Vice President shall be eligible for office unless he is a member in good standing. The President shall, when present, preside at all meetings of the members and of the board of directors. During the absence or inability to act of the President, the Vice Presidents in order of seniority shall act as chairman at such meetings and otherwise perform and exercise the duties and powers of the President.

Appointment of Officers

2. The board of directors shall meet as soon as convenient after their election for the purpose of appointing the officers of the club for the period ending April 30 in the next year but each officer shall continue in office until his successor is elected.

Casual Vacancies

3. In the event of a vacancy occuring in any office the board of directors may fill the vacancy for the unexpired portion of the term.

Honorary Auditor

4. An Honorary Auditor shall be appointed at each annual meeting. An audited statement of the finances of the club for the fiscal year shall be published annually and a copy shall be sent to each member.

Committees

ARTICLE V

1. The following standing committees and the chairman of each shall be appointed by the board of directors as soon as convenient after the election of the board:
   (a) Budget and Finance Committee
   (b) Speakers' Committee
   (c) Membership Committee
   (d) Constitution Committee
   (e) Reception Committee
   (f) Publicity and Public Relations Committee
   (g) Yearbook Committee
   (h) Head Table Committee
   provided that for any year the board of directors may by resolution elect not to appoint any one or more of such committees.

2. The President or the board of directors may from time to time appoint such other committees as may be deemed expedient.

Meetings of Members

ARTICLE VI

General Meetings

1. The club shall hold general meetings weekly, if possible, from October to April, both inclusive, in each twelve months with such intermissions as may from time to time be determined by the board of directors. Special meetings of the club may be called at any time by the President.

Annual Meeting

2. The annual meeting shall be held not later than April 30 in each year. At the annual meeting a report of the year's proceedings and work shall be submitted by the President and this report shall be accompanied by an interim report from the Secretary-Treasurer.

Notice of Meetings

3. Written notice of all meetings of members shall be given all members of the club before the date on which the meeting is to be held. Such notice shall be sufficient if addressed to the members, and deposited post paid in the post office in Toronto. The

accidental failure or omission to give notice to any member shall not invalidate the proceedings at any meeting.

Quorum at Meetings

4. Sixteen members in good standing shall constitute a quorum at any meeting of the club, general, annual or special, and the chairman of the meeting shall have a casting vote.

Limitation of Business at General Meetings

5. No business other than the hearing of the addresses shall be introduced at any meeting of the club by any person other than the chairman of the meeting, unless it has been submitted to the board of directors and received its approval.

Fiscal Year

ARTICLE VII

The fiscal year of the club shall end on such day in each year as may be fixed by the board of directors but unless so fixed by the board shall end on April 30.

Amendments

ARTICLE VIII

Subject to the provisions of The Corporation Act this constitution may be amended by the board of directors, but unless in the meantime confirmed by a majority of the members present in person at a meeting of the members duly called for that purpose, any amendment is effective only until the next annual meeting of members unless so confirmed thereat and, in default of such confirmation thereat ceases to have effect at and from that time, and in that case no new amendment of the same or like substance has any effect until confirmed at a meeting of the members.